S. HRG. 99-742

REAUTHORIZATION OF THE URBAN MASS TRANSPORTATION ACT

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

ON

THE EMERGENCY DEFICIT REDUCTION ACT (GRAMM-RUDMAN-HOLLINGS), FORCING TO REASSESS ALL FEDERAL PROGRAMS TO DETERMINE IF OR HOW WE CAN CONTINUE TO PROVIDE NECESSARY ASSISTANCE AT THE LEAST POSSIBLE COST

APRIL 15 AND 16, 1986

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REAUTHORIZATION OF THE URBAN MASS TRANSPORTATION ACT

TUESDAY, APRIL 15, 1986

U.S. Senate,
Committee on Banking, Housing, and Urban Affairs,
Subcommittee on Housing and Urban Affairs,
Washington, DC.

The subcommittee met at 9:30 a.m., in room SD-538, Dirksen Senate Office Building, Senator Chic Hecht (chairman of the subcommittee) presiding.

Present: Senators Hecht, Garn, Heinz, Mattingly, Cranston, and Dixon.

OPENING STATEMENT OF SENATOR HECHT

Senator Hecht. In the tradition of our esteemed chairman of the full committee, Jake Garn, we will start this meeting punctually at 9:30.

Today the Subcommittee on Housing and Urban Affairs begins the first of 2 days of hearings on the reauthorization of the Urban Mass Transportation Act.

We are privileged to have appearing before us today Administrator Ralph Stanley of the Urban Mass Transportation Administration, representatives of State and local governments, and others who have a critical interest in the future of Federal Mass Transit Assistance Programs.

As we begin today's hearings, our Nation continues to be plagued by tremendous budget deficits which threaten to undermine our economic stability. The Emergency Deficit Reduction Act or Gramm-Rudman-Hollings is forcing us to reassess all Federal programs to determine if or how we can continue to provide necessary assistance at the least possible cost.

This year, as in the past several years, the administration has targeted the Federal Mass Transit Program for significant reductions and program realignment. Again as in the past years, the Senate Budget Committee has rejected the bulk of the administration's proposals but continues to include the Mass Transit Programs on a long list of Federal programs which will be reduced over the next several years.

Hopefully during the course of these hearings we will receive information that will help us on this panel to develop a legislative package that will address the problems associated with continued budget pressures, while at the same time retaining the essential support and guidance at the Federal level for States and communities, big and small, to adjust to this new environment.

I know that many of my colleagues on this committee will be coming forth with specific legislative initiatives and I look forward to working with them toward developing a reauthorization package.

I would point out because many of the Senators this morning are going to be tied up, and coming in and out, we're going to ask the witnesses to limit their testimony to 5 minutes and submit their entire statement for the record. The record will be open for 2 weeks and further additional questions will be acknowledged at that time.

Senator Garn.

OPENING REMARKS OF SENATOR GARN

Senator **Garn**. Thank you, Mr. Chairman. I have no opening statement. I appreciate you conducting these hearings and I will not be able to stay very long due to a rare situation—I'll be able to go to one of my appropriations subcommittees. They may die of shock when I show up from not being here at Banking, but I do appreciate your holding the hearings.

Senator **Hecht**. Before you walked in I said, "In your tradition we started punctually."

Senator Cranston.

OPENING STATEMENT OF SENATOR CRANSTON

Senator **Cranston**. Thank you very much, Mr. Chairman. I do have a statement I'd like to make.

I am here this morning in total support of reauthorization of our Federal assistance programs for urban mass transportation systems as set forth in the Urban Mass Transportation Act of 1964. It is legislation vital to the economic health of our cities and our Nation.

It is essential to California and the Nation's economic growth and vitality. The livelihood of our great urban centers and the country as a whole is dependent upon the bus and rail programs this law provides. We must not let these programs, central to the lives of millions of Americans, be choked off in the legislative process nor should we let them be crushed by the juggernaut of Gramm-Rudman.

I believe in mass transit. I see it as central to the growth and vitality of the economic centers that are our cities. We have made enormous progress economically and socially through the 20 years of transportation growth these programs have made possible. Yet what we have experienced in recent years is an unrelenting attack on the Federal role in urban transportation.

The American experience with urban mass transit is a success story. With Federal assistance, cities and towns have bus and rail systems not otherwise possible. Mobility of populations has improved. Businesses have located in more advantageous places with the promise of both employees and customers could be given better access, and transit serves all Americans.

Twenty-eight percent of transit riders are in age categories under 16 and over 65 with limited or no access to autos. Sixteen percent are over 65 and that figure is climbing, and over half the trips made on transit are related to work, a fact of enormous economic significance.

Mass transit serves all Americans, those who live in cities and those who benefit from cities. It is a job that cannot be done by cities and States on their own. That was the reason for Federal involvement in the first place.

Yet, we face proposals that would drastically reduce Federal transit assistance. Transit has already suffered substantial cuts, 24 percent since 1981. The heavy ax of Gramm-Rudman threatens them even more.

I accept the targets set forth in Gramm-Rudman. I will support them. But I hope that we can work out a budget with the President that avoids the automatic trigger of Gramm-Rudman and provides for adequate support for transportation.

If we get to the automatic trigger, transportation, like many other needed programs, will suffer drastically.

In California, we see daily the results of our national investment in mass transit and we know painfully well what the impact of scuttling Federal assistance would be.

In the Los Angeles Basin, Federal subsidies represent 15 to 20 percent of transit operators' budgets. Losing those critical dollars means those who can least afford it pay more or stay home.

Cuts in funds to buy buses will hurt the rider even more as operating moneys are used to keep equipment going. The Los Angeles Metro Rail System, such a critical link in the area's long-range transportation program, cannot be a reality without Federal assistance. For Los Angeles, the center of the Pacific Rim market and economy, public transportation is the key to the future.

Between 1970 and 1980 the area's population increased by more than 1.3 million, more than any other urbanized area. In the same period, the growth in nonagricultural jobs in Los Angeles was eight times that of Chicago and nearly four times that of New York.

Of the 100 largest industrial companies in California, 63 have their headquarters in the Los Angeles area, 7 of the top 10 industrial firms, 4 major banks, 6 of the 10 largest savings and loan associations, and 6 of the 10 largest merchandising companies. To slow transportation in Los Angeles is to stifle economic growth and to stifle economic growth in this major trade center is to harm economic growth in the Nation.

In the San Francisco Bay area, the next 15 years will see a population increase estimated at 1.1 million. Jobs will increase from 2.8 to 3.9 million. Getting to and from these jobs will increase daily commuter traffic by almost 60 percent in the westbound San Francisco-Oakland Bay Bridge corridor, by almost 140 percent in the southbound Alameda County to Santa Clara County corridor, and by over 45 percent in the southbound San Mateo County to Santa Clara County corridor.

What does this mean for transit? It means a ridership boost in the westbound Bay Bridge corridor from the present 44 to 64 percent, from the present 23 to 46 percent in the westbound corridor, and from the present 5 to 35 percent in the southbound San Mateo-Santa Clara corridor.

Yet, under the administration's budget request for fiscal year 1987 the operations of Bay Area Transit Authorities would be cut by $160 million or about 20 percent in fiscal 1987 alone.

Some might say let the highways handle it. Anyone who has been to Los Angeles in recent years knows better. Almost the entire Los Angeles Basin is in rush hour gridlock and rush hours get longer and longer. It would take a new eight-lane freeway to handle the commuters we expect to carry on Metro Rail. The Bay area's interstate system was expanded not for interstate travel but for home-to-work trips. Now that system is at a crawl during peak hours and peak hours get longer each year.

Mr. Chairman, this story is not exclusive to California. It is repeated city by city all across the country. The economic vitality of the Nation is at risk when we fail to recognize and support the extraordinary boost the Federal transit dollar has given to American mobility, to transportation access for millions of American citizens, and to the economic health of American business.

In 1986, American mass transit is at a crossroads. I believe we in the Congress made thoroughly sound judgments in 1982 when we enacted the Surface Transportation Act of 1982. Under 4 years of that landmark legislation our urban mass transit as well as our highway programs have been sensibly managed and soundly carried out. This is not a time to turn back the clock. If we do, we will pay a horrible price in economic expansion in this country.

Thank you, Mr. Chairman.

Senator HECHT. Thank you very much, Senator Cranston.

Mr. Stanley, I have asked everyone this morning to summarize their remarks. Your entire statement will be part of the record. There are time restraints on everyone this morning. So without further ado, we're anxious to hear from you, Mr. Stanley.

STATEMENT OF RALPH STANLEY, ADMINISTRATOR, URBAN MASS TRANSPORTATION ADMINISTRATION, DEPARTMENT OF TRANSPORTATION

Mr. STANLEY. Thank you, Mr. Chairman. I will submit my written statement for the record and summarize some of the key points.

I believe this reauthorizing cycle presents us with an excellent opportunity to rethink our approach to Federal transit. Mass transit suffered from difficulties that Federal dollars alone cannot solve: capital cost overruns, rising operating costs, declining productivity, stagnant ridership, and an inability to adjust to changing patterns of urban development.

For example, an analysis of data shows that vehicle hours per employee fell 4 percent between 1975 and 1980 and another 3 percent between 1980 and 1983. In addition, it now takes 22 percent more labor to produce a vehicle mile of transit service than it did in 1965. At the same time, that data shows that the number of passengers per vehicle mile has dropped 7 percent since its recent peak in 1979.

Traditional transit modes now carry less than 6 percent of all work trips according to the 1980 census and less than 3 percent of all trips in the Nation.

SUBURBS IS GREATEST AREA OF GROWTH

Of the challenges facing transit providers today, perhaps the greatest is that of providing transportation service to the areas of greatest growth, the suburbs.

For instance, between 1970 and 1980, the suburban portions of the 25 largest urban areas added over 4.3 million jobs, a gain of 40 percent.

This week's issue of Newsweek reports that about 66 percent of all new office space under construction in 1985 was built outside of the Nation's central business districts. Conventional transit will be hard pressed to meet the needs of workers and shoppers traveling between dispersed suburban destinations.

Here in the Washington area, the percentage of people that take transit to the core area of work is about 35 percent while the percentage that use any form of public transit for the far more numerous intrasuburban work trips is less than 3 percent.

It is time that we looked more closely at what we are purchasing for our transportation dollars, particularly our Federal transportation dollars, and how we purchase it.

We believe our role is to provide support for public mobility necessities, not for those facilities and services that are beneficial but not essential for that basic purpose.

Anything beyond basic mobility needs must be considered the responsibility of State and local government. Moreover, local government should rise to the challenge by dedicating funding to transit where transit is a local priority. This is particularly true given the Federal deficit and the fact that many of the States are in sounder financial positions than the Federal Government.

No single service or facility can solve all suburban mobility problems, which are the essential urban transportation issue for the 1980's and 1990's. Accordingly, if the Federal Transportation Program is to help provide for the basic mobility needs for the future it must be flexible in terms of the kinds of facilities and services it ultimately supports and flexible in terms of how that support is delivered.

The mix of facilities and services should not be unduly influenced by either a modal or institutional bias in the Federal-support delivery structure if the optimal use of limited funds is to be achieved.

Because this administration believes transportation projects should be undertaken based on mobility needs rather than be driven by the availability of categorical Federal dollars, we propose that the UMTA Program be restructured as part of a transit highway block grant.

It is true that some localities have already taken the mobility-oriented approach. In Houston, for example, a plan was developed by the State highway director, the mayor, the transit authority, and the county road department. The plan was not a highway or a transit plan but a regional mobility plan which resulted in the construction of a network of busways funded by both Federal transit and highway dollars, rather than separate projects.

FEDERAL GRANTS ARE DRIVING FORCE ON INVESTMENT DECISIONS

Unfortunately, the current Federal program structure discourages such an integrated approach to transportation planning. Instead, in many cases, the existence of categorical Federal grants has been the driving force behind investment decisions.

For example, here in Washington, I-66 was built at a cost of $250 million while a 9-mile long parallel extension of the orange line beyond Ballston was built and equipped for about $300 million. These parallel projects will provide a total capacity nearly twice the expected demand.

In Atlanta, the north-south corridor line parallels I-75-85, which is the subject of a massive reconstruction highway project, together providing a large amount of duplicative capacity.

In the Los Angeles area, the Los Angeles-Long Beach light-rail line, estimated to cost over $700 million, and the proposed Harbour Freeway High Occupancy Vehicle [HOV] facility, which will cost $600 million, will closely parallel each other. Yet the foreseeable transit demand could be met by the HOV facility alone.

Other examples include the electrification of the Morris-Essex line and the construction of I-280 in New Jersey and the reconstruction of I-270 parallel with the Metro line to Shady Grove here in Washington.

Our proposal would encourage more rational decisionmaking. Under that proposal transportation planners will be able to consider transit investments and highway investments in context as a complementary transportation investment rather than in isolation as competing and perhaps redundant investments undertaken to maximize Federal dollars, as is all too often the case under the current system.

Two other critical components in the effort to improve transit planning, financing, and service are increased private participation in the transit marketplace and increased competition. Greater participation by the private sector and more extensive competition would further encourage the cost-efficient use of resources and assure flexible responses to changing transportation needs.

Let me stress, Mr. Chairman, that our objective in increasing private participation is not to transfer public transit into private hands. We are not advocating the loss of control over public policy. Rather, we seek to establish a partnership between the public and private sectors, a partnership we believe will result in the provision of equal or better transit service at a lower cost than currently provided.

Introducing competition is important because the transit industry's current structure provides no market pressures whatsoever to ensure efficiency and productivity. Our proposal would require that fixed percentages of the services provided by Federal recipients be put out for competitive bidding.

INVOLVEMENT OF THE PRIVATE SECTOR

A number of studies have shown introducing greater competition through competitive bidding results in significant cost savings without sacrificing service. For example, contracting out bus service on a competitive basis can result in savings ranging from 10 to 50 percent.

Let me emphasize the key word here—competition. Both private and public operators could bid on the service. In fact, in London, where a similar process is being used, a majority of routes were awarded to the existing public transit operator rather than to private operators.

We want to encourage competition but to ensure that it's fair. Under the current system it is often difficult for private operators to participate in the provision of transit services. To assure more meaningful private participation our proposal would require private operators be involved at the earliest stage of planning and they receive fair consideration as service providers.

While we believe that traditional transit markets should be open to competition, we are also concerned that charter operators using nonfederally subsidized buses are disadvantaged in competing with operators using federally subsidized equipment. Therefore, we propose to revise the charter bus section of our act. Under our proposal, no federally financed equipment could be used to operate charter service. Moreover, Federal operating assistance could not be used to operate buses in charter service even if the buses had not been purchased with Federal funds.

We believe that when Federal funds are used to purchase equipment and facilities to provide mass transit service that federally subsidized equipment should not be used by anyone to compete against nonfederally subsidized equipment in the provision of charter bus service.

Based on our experience with the current provision, the only way to prevent this competition is to prohibit the use of federally subsidized equipment in charter bus service.

Finally, while competition is critically important, cooperation between the public and private sectors is also extremely beneficial. For example, private sector involvement in capital infrastructure development through direct private investment or public-private joint ventures in new rail systems, rail extensions and station modernization offers a tremendous opportunity not only for savings but for greatly reducing the reliance on Federal assistance.

For instance, two private groups have proposed building a rail line to Dulles Airport connecting with Washington Metro Rail at the west Falls Church station in Virginia. Las Vegas is proceeding to construct a $25 million automated people-move funded entirely by the private sector. New York City is working with local developers to build a rail line along New York City's west side, 100 percent privately financed. Private developers, in order to secure easy access to their properties, are expected to make major contributions to the New York line. UMTA has just made a $1.5 million grant to the New York Planning Commission to study the feasibility of this proposal. UMTA is also funding a grant to the Tahoe

Tamara Foundation to examine private sector funding alternatives for transit projects in the Tahoe region.

The joint development approach has provided substantial benefits to New York, Denver, and Washington by allowing public agencies to recapture some of the proceeds from development made possible by the associated transit projects.

The restructuring of the UMTA program I've described, while still providing an appropriate level of Federal assistance for transit, will enable States and localities to better meet mobility needs. Moreover, it is necessary to achieve deficit reductions required to meet Gramm-Rudman-Hollings for fiscal year 1987.

I look forward to working with you to enact the authorizing legislation which is needed to implement these changes.

Thank you, Mr. Chairman.

[The complete prepared statement follows:]

STATEMENT OF RALPH L. STANLEY
ADMINISTRATOR, URBAN MASS TRANSPORTATION ADMINISTRATION,
BEFORE THE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE, ON TUESDAY, APRIL 15, 1986

Mr. Chairman, and distinguished members of the Subcommittee, I am pleased to have this opportunity to appear before you to discuss the Administration's proposed transit reauthorizing legislation. I will first go over some of the key concepts in the bill and then outline its specific provisions.

As you know, it is the Administration's position that we can no longer afford to spend tax dollars from the General Fund of the Treasury of the United States to fund transportation programs that provide benefits locally, programs that are a local responsibility. That was our position before the enactment of Gramm-Rudman-Hollings, but in light of that legislation, we believe it is more urgent than ever that our position be adopted. In order to meet the deficit targets of that historic legislation, the Federal role in transit will have to be reduced, and we believe that our reauthorizing proposal is necessary to achieve that reduction.

The changes that we think are necessary represent a challenge to State and local officials to uncover the solutions to the problems facing mass transit, many of which are right at their doorstep and can no longer be neglected. This shift in responsibility is particularly appropriate at a time when the States are in sounder fiscal condition than the Federal government. Moreover, local governments should rise to the challenge by dedicating funding to transit where transit is a local priority.

Rethinking the Federal transit program

Despite the overriding importance of our deficit reduction efforts, much more is involved here than a mere budget cutting exercise. I believe this reauthorizing cycle also presents us with an excellent opportunity to rethink our approach to the Federal transit program. Mass transit has suffered from difficulties that Federal dollars alone cannot solve: capital cost overruns (like the Detroit People Mover), rising operating costs, stagnant ridership and an inability to adjust to changing patterns of urban development. It is time that we look more closely at what we are purchasing for our transportation dollars, particularly our Federal transportation dollars, and how we are purchasing it.

The Administration believes that transportation projects should be undertaken based upon mobility needs, rather than be driven by the availability of Federal dollars. Some localities have taken a mobility-oriented approach. In Houston, for example, a plan was developed by the State highway director, the mayor, the transit authority and the county road department. The plan was not a highway plan or a transit plan, but a regional mobility plan. It has resulted in construction of a network of busways funded by both Federal transit and highway dollars, rather than separate projects.

Unfortunately, the current program structure discourages such an integrated approach to transportation planning. Instead, in many cases the existence of categorical Federal grants has been the driving force behind investment decisions. Our proposal would encourage more rational decisionmaking.

Block grant concept

We are proposing a transit and highway block program that would combine many of the exisitng categorical programs for transit and highway projects. Under our proposal, transportation planners would be able to consider transit investments and highway investments in context, as complementary transportation investments, rather than in isolation, as competing and perhaps redundant investments. State and local officials would have the flexibility to use about $3.3 billion in "transit" and "highway" funds for necessary transportation investments in their communities -- whether transit or highway -- instead of planning overlapping or unnecessary projects in order to maximize Federal dollars, as is all too often the case under the current system.

Increasing competition

Two other critical components in the effort to improve transit planning, financing, and service are increased private participation in the transit marketplace and increased competition. Greater participation by the private sector and more extensive competition in the provision of services would further encourage the cost-efficient use of resources and assure flexible responses to changing transportation needs. Let me stress, Mr. Chairman, that our objective in increasing private participation is not to transfer public transit into private hands, but to establish a partnership between the public and private sectors, a partnership that we believe will result in the provision of equal or better transit service at a lower cost than that currently provided.

Introducing competition is important because the transit industry's current structure provides no market pressures to ensure maximum efficiency and productivity. Therefore, our proposal would require that fixed percentages of the services provided by Federal recipients be put out for competitive bidding.

A number of studies have shown that introducing greater competition through competitive bidding of service and maintenance results in significant cost savings without sacrificing service. For example, contracting out bus service on a competitive basis can result in savings ranging from 10 to 50 per cent, according to a recent study by Dr. Teal of the University of California and Dr. Marlok of the University of Pennsylvania. In addition, the Rice Center in Houston has just completed a study which concluded that Salt Lake City could save $2.8 million over four years by competitively procuring its peak-oriented commuter services. The Rice Center study also concluded that Milwaukee could save $50 million over the same period by competitively contracting for a portion of its commuter bus services. Finally, the Dallas Area Rapid Transit Authority has used a private firm to start up an express bus service. Estimated savings for Dallas was $9 million on the route for the first year of service.

We want to encourage competition, but we also want to ensure that that competition is fair. Under the current system, it is often difficult for private operators to participate in the provision of transit services. To assure more meaningful private participation, our proposal would require that private operators be involved at the earliest stages of transportation planning and that they receive fair consideration as service providers.

While we believe that traditional transit markets should be opened up to competition, we are also concerned that charter operators using non-federally subsidized buses are disadvantaged in competing with operators using federally subsidized equipment. Therefore, we have proposed the revision of the charter bus section of the Urban Mass Transportation Act. Under our proposal, no federally financed equipment or facilities could be used to operate charter service. Moreover, Federal operating assistance could not be used to operate buses in charter service, even if the buses had not been purchased with Federal funds. This prohibition would apply to public and private operators alike. We believe that when Federal funds are used to purchase equipment and facilities to provide mass transit service, that federally subsidized equipment should not be used -- by anyone -- to compete against non-federally subsidized equipment in the provision of charter bus service. Based upon our experience with the current provision, the only way to prevent this unfair competition is to prohibit the use of federally subsidized equipment in charter bus service.

While competition is critically important, cooperation between the public and private sectors is also extremely beneficial. For example, private sector involvement in capital infrastructure development through direct private investment or public/private joint ventures in new rail systems, rail extensions, and station modernization, offers opportunity for considerable savings, thereby greatly reducing reliance on Federal assistance. For instance, two private groups have proposed building a rail line to nearby Dulles Airport, connecting with the Washington Metrorail system at West Falls Church, Virginia. New York City is working with local developers to build a rail line along New York's Westside. Private developers, in order to secure easy access to their properties, are expected to make major contributions to the financing of

Planning Commission for a study of this proposal. The joint development approach has provided substantial benefits to New York, Denver and Washington by allowing public agencies to recapture some of the proceeds from development that were made possible by the associated transit project.

Structure of transit proposal

Now that I have discussed some of the key concepts of our proposed reauthorizing legislation, I will explain the structure of the transit portion of the proposal. I would point out that UMTA's fiscal year 1987 budget request of $1.22 billion, the projected average annual receipts into the Mass Transit Account for the next four years exclusive of interest, is based upon our reauthorizing proposal.

Because the current structure of the UMTA and FHWA programs leads, at the local level, to duplication, lack of coordination and distorted decisionmaking, with projects often selected based on availability of funds rather than on transportation needs, we would restructure the UMTA program as part of a transit and highway block program. For the first time since the inception of the UMTA program, State and local governments would be able to base transportation decisions on urban and State mobility needs, rather than choosing projects in order to maximize the availability of Federal funding. We believe this flexibility, coupled with the need to conserve resources, will encourage State and local officials to carefully evaluate their transportation requirements and only proceed with needed and cost-effective projects.

Under our legislative proposal both the funding source and the delivery mechanism for transit funds would be changed. General revenues would no longer be used to fund transit projects. Instead, about $1.1 billion from the Mass Transit Account -- as well as about $2.2 billion from the Highway Account -- of the Highway Trust Fund would be the sole source of funding for a combined $3.3 billion transit and highway block program. We believe user fees are the appropriate source of revenues for this program. Moreover, this funding arrangement would prevent the UMTA program from adding to the Federal deficit because the program would be funded at the level of expected tax receipts to the Trust Fund.

Under the new program, funds would be set aside from the Mass Transit Account for UMTA's administrative expenses, the research, training, and human resources program, planning, and the elderly and handicapped program. Our fiscal year 1987 budget request for administrative expenses is $26.8 million; for research, training and human resources, $19.5 million; for planning, $30.5 million; and for elderly and handicapped programs, $35 million. This $35 million level is an increase over the FY 1986 level.

Funding UMTA's administrative expenses from the Mass Transit Account would parallel the treatment of the Federal Highway Administration's administrative expenses, which come from the Highway Account of the Highway Trust Fund. The elderly and handicapped program funds would be distributed to the States, and the planning funds to State and local officials, on the basis of an adminstrative formula, as is currently done.

The remaining Mass Transit Account funds, approximately $1.1 billion, would comprise UMTA's contribution to the block grant program and would be apportioned to the States, along with the $2.2 billion in highway funds, for use on eligible transit and highway projects. Rather than requiring detailed Federal review before releasing the funds as grants, UMTA and FHWA would receive assurances from the States that the States would comply with minimal Federal requirements. Some of these assurances have been patterned after the pioneering work that your Committee did in the development of the assurances for the Community Development Block Grant. Once those assurances were received, we would obligate the funds, and then make payments under an administrative payment schedule. We would review the projects to verify that the assurances had in fact been complied with.

Formula

Under our legislative proposal, funds from the Mass Transit Account would be apportioned to the States on the basis of the existing section 9A and section 18 formulas. There would be no discretionary grant program, as I will explain shortly. The States would have to make the approximately $980 million attributable under the 9A formula to urbanized areas over 200,000 available for expenditure on transit or highway needs in those areas. The States could spend all other Mass Transit Account funds apportioned to them at their discretion in accordance with their transportation needs. From the $2.2 billion Highway Account component of the block grant program, the States would have to make approximately $540 million available to urbanized areas over 200,000 in population. This would guarantee that these areas would receive about $1.5 billion of the block grant funds. The remainder would be available to the States on the basis of existing urban, secondary, and bridge formulas for use on either transit or highway projects anywhere in the State.

Eligible expenses

Funds would be available for capital assistance in all areas and for transit operating assistance in areas under 200,000 only. The Administration maintains its position that transit operating costs are primarily driven by local policies and should be paid

Fund would support deficit reduction efforts because the funding level would be tied to the level of tax receipts into the Trust Fund.

Conclusion

The changes in the UMTA program I have described -- while still providing an appropriate level of Federal assistance for transit -- will enable States and localities to better meet their mobility needs. Moreover, the changes are necessary to achieve deficit reductions required to meet the Gramm-Rudman-Hollings target for fiscal year 1987. I look forward to working with you to enact the authorizing legislation needed to implement this restructuring.

Mr. Chairman, that concludes my prepared statement. I would be pleased to answer any questions that you or other members of the Subcommittee might have.

Senator HECHT. Thank you, Mr. Stanley.

Senator Mattingly, do you have an opening statement?

Senator MATTINGLY. No opening statement, Mr. Chairman. I do have to go to another hearing and I do have some questions I'd like to submit for the record, and have Mr. Stanley and the rest of our friends respond to them. Thank you.

[The following was subsequently submitted for the record:]

RESPONSE OF RALPH STANLEY TO SENATOR MATTINGLY'S QUESTION

Question. You also mentioned in your testimony that there will be instances in which all 10 tasks in a grantee's construction management plan would not be necessary. I would appreciate if you could respond in writing what ways this bill could provide UMTA the flexibility that would be needed in a case such as this.

Answer. We do have a couple of technical comments on the bill and are pleased to be able to present them to you. First, we prefer to use the phrase "project management oversight" rather than "construction management oversight" because we think it is necessary to have the oversight process in place as early as possible and certainly before the construction phase actually begins. Second, the bill would require a grantee's management plan, at a minimum, to have in it the 10 items listed in the legislation. We think that there will be a number of projects that will not need to have all 10 of these items addressed. We suggest either that the list be shortened or that the language of the bill be revised to give the Secretary discretion as to what to include in each project management plan.

Finally, it would be helpful for the bill to provide that the funds used by the Secretary for project management oversight would be subject to the same requirements as are other direct Federal procurements rather than to the requirements of the section from which the funds come. For example, if we use section 3 funds for project management oversight, we would want our contractor to comply with all Federal procurement requirements but not with section 3 requirements (public hearing, environmental procedures, etc.) which are intended to apply to States and other grantees. We think this is implicit in the bill but would like to see it spelled out.

Senator HECHT. Thank you.

Mr. Stanley, many have criticized your Department's legislative and regulatory proposals which seek to mandate a specific level of private sector involvement as being contradictory to other administration objectives of providing for more local decisionmaking.

Could you comment on these criticisms?

ENCOURAGE COMPETITION

Mr. **Stanley**. Mr. Chairman, the legislative proposal that we've put forward doesn't mandate a specific level of private sector involvement. What we are attempting to do is encourage competition.

As I mentioned in my opening statement, we do have a proposal that would require competitive bidding of a gradually increasing share of the service that would be put out for bid, but nothing would prohibit the current transit operator from bidding itself on that service. The whole effort is designed to lower costs and allow that kind of competition to occur.

Senator **Hecht**. The Congressional Budget Office has reported the long-term authorization for the mass transit account of the Highway Trust Fund could be sustained between $1.75–$1.9 billion annually through the 1990's.

Why isn't the total amount collected in this fund available to fund mass transit?

Mr. **Stanley**. In our proposal we would allow the total amount collected to be spent on mass transit and we agree that an amount of approximately $1.7 billion could be funded. The difference is basically the interest collected or earned on the amount that's in the account. Because of the deficit and the effort to meet the Gramm-Rudman targets, we have decided, although the funds would be spent eventually, that we would not authorize the Mass Transit Program up to the amount of the interest collected on the account.

Senator **Hecht**. Much of the testimony we have received from later witnesses calls for multiyear contracting for major capital projects.

What are your thoughts on this?

Mr. **Stanley**. I think that the greatest improvement and the greatest opportunity we have in this reauthorizing cycle is to give some certainty on the capital funding side at whatever the budget level. I think our proposal calling for, again, a formula program and a 4-year authorization gives local authorities some certainty over the level of capital assistance to be provided which currently isn't provided under the discretionary program.

REPEAL OF SECTION 13(C) OF THE ACT

Senator **Hecht**. The testimony submitted by the Amalgamated Transit Union states that it has never been proven that section 13(c) of the act contributes to increased labor costs and lower productivity.

What evidence can you share with the committee which supports your position of repealing this section?

Mr. **Stanley**. With regard to section 13(c), I think the evidence of increased labor costs and lower productivity is incontrovertible over the period that Federal operating assistance has been provided.

What I would like to do is submit for the record a number of instances where section 13(c) has resulted in either restricted private participation, and misuse in order to gain new labor rights by various local unions, and a delay in projects.

[The following information was subsequently submitted for the record:]

Summary Examples From Some Empirical Evidence of the Negative Impacts of Section 13(c) (Charles River Associates, Inc., March 1986)

It has inhibited innovation in the transit industry.—In 1981, the Mid-Ohio Regional Planning Commission (MORPC) developed a proposal for a federally funded demonstration project involving the use of shared-ride taxis in residential areas to feed into the Central Ohio Transit Authority bus system. These low-density areas were places where conventional bus services were judged inefficient. The service would complement the existing bus system, and no reductions in the latter were anticipated. However, the union refused to sign the section 13(c) agreement on the grounds that union members had a right to the jobs to be created. In 1984, a section 13(c) agreement was signed providing that any fixed-route service evolving from the feeder that achieved high productivity would be spun off and operated by the transit authority with union labor.

It has restricted private sector participation and impacted funding.—In 1984 and 1985, the city of Madison, WI, requested that the Department of Labor (DOL) mediate section 13(c) disputes between Madison Metro and its labor union. The first concerned the subcontracting to private operators of elderly and handicapped services. The second involved giving full benefits to part-time operators. It is the city's position that labor contracts signed earlier did not prevent contracting out elderly and handicapped services or require paying full benefits to part-time operators. Both times the union refused to sign section 13(c) agreements for that year's funding requests as part of a bargaining strategy. At present, no section 13(c) agreements have been signed for 1985 capital, operating and plant requests which total $3.8 million. The city has filed for interim certification with DOL.

It has helped labor gain new rights.—In May 1984, the Northern Indiana Commuter Transportation District submitted a grant application for funds to purchase an electronic information system and to construct one station and rehabilitate several others. Initially, the local union refused to sign the section 13(c) agreement because of a concern that nonunion people would be hired to operate the system. It is the district's position that the collective bargaining agreements allowed use of nonunion personnel. In September 1984, the union signed a section 13(c) agreement for the operating portions of the grant, but delayed signing the agreement for the capital portion until April 1985. The district believes that the section 13(c) agreement was used to attempt to gain new jobs and not to protect against adverse impacts.

It has delayed projects.—In 1984, Sonoma County Transit submitted its first application for UMTA funds, and requested financial assistance in order to replace 10 buses. Although the county owns the bus system, the bus drivers and mechanics are the direct employees of a private management firm contracted to operate the system, and belong to a local union. The union wants to sign the 1975 national model section 13(c) operating assistance agreement, which provides for displacement or dismissal benefits up to 6 years of salary if a federally assisted project results in job displacements (for example, through contracting out of services). The county will not agree to such a condition and claims it is outside the scope of section 13(c). In 1985, DOL certified the project, provided that the county agrees to the terms of the model agreement. To date, the county has not proceeded with the Federal grant application because it has not been willing to accept the terms of the model agreement.

It has interfered with State law.—In 1982, the Georgia Legislature amended the Metropolitan Atlanta Rapid Transit Authority (MARTA) Act to limit MARTA's authority to bargain collectively with the local union, specifically prohibiting bargaining over subcontracting of work and assignment of employees, and requiring consent of both parties before an issue could be submitted to arbitration. The union appealed the law, and in 1985, the U.S. Court of Appeals ruled that the law prevented MARTA from complying with section 13(c), and that the Secretary of Labor could not certify MARTA's section 13(c) agreement. This required the State to amend the 1982 law to weaken the objectionable provisions in order to be recertified by the Secretary of Labor and be eligible for Federal funding.

Mr. **Stanley**. I will give you one for instance. In the city of Madison, WI, where in 1984 and 1985, the Department of Labor was requested to mediate a section 13(c) dispute between Madison Metro and its labor union, the issue was subcontracting out to private operators for elderly and handicapped service. In both instances, the labor contracts that had been signed earlier supported the city's position that that could be contracted out. Both times the unions refused to sign section 13(c) agreements as a clear effort to regain bargaining strategy. To date, no agreements have been signed for 1985 capital operating and plant requests which total $3.8 million, which means the city of Madison is basically faced with a loss of Federal funding if those agreements aren't signed.

And if we are not to dictate any level of private participation, which I would support, I also don't believe the Federal Government ought to be as involved as we are in local labor matters as section 13(c) requires.

Senator HECHT. You have stated in your written testimony that increasing private participation in mass transit does not mean the transfer of public transit into private hands. Yet many feel that this is your ultimate objective.

Could you comment on that?

Mr. STANLEY. Our ultimate objective is not to transfer the public policy responsibilities that a transit board has. However, we have seen in a number of instances where that policy responsibility is separated from the operating responsibility, and the result in over 1,000 systems which are included in a study we will be forwarding to this committee is savings ranging from 10 to 50 percent.

Transit authorities could continue to set fares, service levels, frequency of service, all the decisions they make today. Those decisions need not be carried out by the public sector monopolies that have grown up over the last decade.

Senator HECHT. Senator Gorton has asked if I would ask a couple of questions of you so I want the record to show that.

If cost-effectiveness was the sole criteria for allocating Federal funding for transit new starts, which new start projects would you have recommended be funded and why?

Mr. STANLEY. Several years ago when cost effectiveness, the ability to finish the project, and the ultimate ability to operate it were the criteria we were attempting to put in place, the projects that were before us that we were selecting were Los Angeles, Seattle, and Houston projects. The Seattle project in Senator Gorton's State was the most cost-effective project of those that were competing for the funds at the time.

Senator HECHT. What level of funding total and annual would be required to complete the three new start projects designated in section 320 of last year's continuing resolution?

Mr. STANLEY. Right now the total amount that was provided for all new starts last year was $368 million. To complete just Miami, Seattle, and what is only a 4½ mile segment of the Los Angeles project which hopes to go to 18.6 miles to make it at all feasible, would be $429 million. In essence, you would have to increase the amount for new start funding by about $50 million just to complete the three projects. The other cities would receive nothing.

Senator HECHT. You might have answered his last question, but let me ask you in case you want to comment on it. What level of funding total and annual would be required to complete all of the new start projects funded in the last year's continuing resolution?

Mr. STANLEY. There are 10 projects mentioned in last year's continuing resolution. If one looks just to bring those projects to segments that you can operate, although they are not the complete project desired in each of the cities, would cost above funds that have been currently appropriated—about $700 million in additional funding. To bring those projects to completion based on what those areas ultimately hope for would be about another $5 to $5.7 billion out of the one penny trust fund.

Senator HECHT. Mr. Stanley, as I mentioned before, many of the Senators could not be here this morning because of world affairs. There will be questions which will be submitted for the record for you to answer. I will have many after these hearings are over. I appreciate your coming and thank you very much.

Mr. STANLEY. Thank you, Mr. Chairman.

Senator HECHT. Would the next panel please come up: Betty Ann Kane, Robert Thompson, Terry Goddard, and Frances Francois. Excuse me, gentlemen of the panel. We are moving faster than we thought and I was told that two panel members are not going to be here until 10:30 a.m. Would you mind—the next panel I think is here. Would you mind waiting and we'll take the third panel and come back to you when we have the full panel?

Mr. FRANCOIS. That's fine.

Senator HECHT. Thank you very much.

Mr. King, do you want to start off, please. As I said, your statement will be put into the record and please summarize your remarks.

STATEMENT OF JOHN KING, CHAIRMAN, HOUSTON TRANSIT

Mr. KING. Thank you, Senator. We're pleased to be here from Houston. Let me just briefly put Houston in the context for the Senator and get to what I understand why there was an interest in Houston testifying.

First of all, the Houston Metro Bus System consists of approximately 1,100 buses. Our annual budget this year is $335 million, including capital and operating, and our service area is 1,286 square miles.

I have been the volunteer chairman of metro for 2 years. My total transit experience was riding the transit ways of Boston and then I migrated to Texas.

I must say that the one thing I have learned at metro is that a dedicated source of revenue is an extremely helpful leverage for the chairman to have. Houston has a 1-cent sales tax exclusively dedicated to mass transit that this year produced $170 million of sales tax revenue for Houston.

NEED FOR STRONG LOCAL SUPPORT

I think what that says is that we need a substantial local support for a transit system.

I think the key aspect of a dedicated source of revenue really has to do with the fact that Houston is the only large city that is matching the Federal Government dollar for dollar on all capital projects.

We put up 50 percent of the dollars and we request the Federal Government to put up 50 percent of the dollars and we take no operating assistance.

I think the reason that Houston has been able to do this is that the people of Houston believe that a mass transit system is an important social function in Houston and we're prepared to back their intentions with this 1-cent sales tax.

I think the prime reason that I am interested in testifying is that Houston has what is called by many people in Houston the super group. In 1983, Houston had a mass-transit election, an election to issue $2.3 billion of revenue bonds to support an 18-mile heavy rail system. That was soundly defeated by the voters of Houston on a 60- to 40-percent vote. I was not on the board, fortunately, at that time. I came on subsequently.

It was a result of that very disastrous defeat that a number of people in Houston thought that we needed to do something to get some sort of consensus on transportation in Houston, not only public transportation but private transportation.

CREATION OF THE SUPER GROUP

As a result of this, a group was created that is called the super group, and the super group consists of the prime, political players in Houston who can truly influence mass transit and transportation decisions.

The super group consists of the chairman of the State highway department who happens to be a Houstonian, the mayor of the city of Houston, the county judge of Harris County, of which Houston is a part, and the chairman of metro. We have no proxies at those meetings. We must all attend those meetings and we also have the head of the chamber of commerce on transportation issues.

The super group meets approximately once a month and the only purpose for its existence is to address transportation issues. There is no other subject matter that we deal with other than what are we going to do to assist transportation generally with respect to Houston.

The purpose of the meeting is really to communicate among ourselves as to what each one of us are doing, how we can identify projects that we think each one of us can participate in either individually or jointly. It is to coordinate our activities and our letting schedules on contracts so that we don't have everybody coming out at the same time with respect to contracts and tying up contractors, architects, material, and supplies, et cetera. And, quite frankly, this system works very well.

I guess the question is: Why does the system work as well as it has in which many of us will assist another governmental agency?

I think the basic reason that it works well is that there is peer-level participation. There is nobody on this super group that is beholden to somebody else. We all have our own independent source of funding. I am not dependent on the highway department for funding of metro projects nor is the city, nor am I dependent upon the city for funding of Houston Metro projects. We all have our own independent source of funds which puts us on a peer level that allows for substantial coordination among ourselves.

I think that it is this peer-level concept, that each of us has our own dedicated source of funds, that has allowed us to deal with one another as equals.

I think that the Federal funding program between the highway and mass transit has created that balance between transit interests and the highway interests and we have an old saying in Texas: "If it ain't broke, don't fix it." And I think that the current system that exists under the 1982 Surface Transportation Act is very helpful in that regard.

Last, I'd have to say, Senator, moving right on, that Houston is very active in the issue of privatization; 35 percent of all our park and ride lots are served with private carriers who are doing it on a cost basis less than what Metro could provide itself. We find that very helpful and we encourage it completely.

[The complete prepared statement follows:]

for at the local level. However, given the percentage of dependence on Federal operating assistance of the small urbanized and rural areas, we concluded that it would be appropriate to allow some level of operating assistance for those areas in our legislation. Operating assistance would be limited, however, to the amounts that were available to the small urbanized and rural areas for operating assistance in fiscal year 1985. The Federal share would continue to be 50 per cent.

Recognizing the importance of maintenance, we have also proposed expanding the definition of eligible transit capital items for all recipients to include "tires, materials, and supplies," items that currently are treated as operating expenses. By bringing these into the capital program we will ease the effect of the operating assistance cut and also encourage recipients to properly maintain their capital investments.

Discretionary grants

As part of our restructuring of the Federal transit program, we propose to eliminate the discretionary grant account. These funds have reached only a few cities. In fact, three-fourths of this account, the rail modernization and new starts funds -- by far the largest portion of the discretionary grants account -- go to only 20 cities. The Administration believes that this is not an equitable distribution of the nationally collected gasoline tax. Instead, receipts of the tax should be allocated nationally, so that, to the greatest degree possible, all payers of this tax may benefit from it.

Moreover, regardless of the source of funding, there are inherent problems in allocating discretionary funds. Congress' growing tendency to earmark these funds has created enormous political pressure to fund inefficient and unreasonably expensive systems. For example, in Detroit, Federal funding for the people mover project, originally estimated at $109 million, has escalated to over $124 million because of cost overruns. The project has been plagued with construction difficulties. Moreover, the Southeastern Michigan Transportation Authority has concentrated on building the people mover project to serve overestimated downtown circulation needs, to the detriment of the bus service. In other cases, funds meant for rehabilitating existing rail lines have been used for extensions that cannot be completed.

So long as discretionary Federal funding is available to pay for 75 per cent of the cost of new fixed rail projects, local officials will be tempted to build or extend systems that they would not undertake with their own local tax dollars. This is wrong. We believe that the decision to build a new fixed rail system should be governed by local political and fiscal constraints. Such a decision should not be influenced by the possibility of funding from a Federal discretionary program.

We have attempted to work with Congress to ensure that the discretionary funds would be used in a cost-effective manner. Unfortunately, our efforts to carefully evaluate new start proposals against objective criteria came to naught. Congress has continued to recommend funding of the Miami Metrorail system, despite the fact that the system has not delivered as promised. Ridership is only one-tenth of the original estimate, which has led to lower than projected revenues for the rail line. As in Detroit, the cost of the rail system has led the transit authority to reduce funding for the bus system. In Miami, reduced bus service has resulted in even lower rail ridership. Thus, a one billion dollar transit investment will have reduced overall Miami transit ridership and forced the transit dependent to endure less frequent, more costly service.

The Administration has concluded that the only way to prevent the squandering of Mass Transit Account funds is to no longer make them available on a discretionary basis. Moreover, the projects the earmarked new starts funds would support could ultimately impose an additional cost of more than $4 billion on the Federal government. I cannot overemphasize how costly these projects would be and how imperative it is in this time of deficit crisis that localities decide whether they can develop community support and local funding for these projects. For these reasons, we propose elimination of the discretionary account.

This does not mean that cost-effective and needed new start projects could not be undertaken. Under our $3.3 billion formula-based transportation block proposal, States and localities could, of course, undertake new start projects if they felt this was their most pressing transportation need. The choice is theirs.

Local share

We are proposing that the local share for capital projects be set at no less than 25 per cent. This change will present a "level playing field" between transit and highway projects. In addition, this level of local share will encourage better capital utilization by the States.

Interstate Transfer Grants-Transit

Our proposal would not reauthorize funding for Interstate transit substitution projects from the General Fund. Instead it would authorize funding for these projects from the Highway Trust Fund. We believe that this proposed funding arrangement is more in line with the original intent of the Interstate Transfer program and puts substitute transit and highway projects on the same basis. Funding all substitute projects directly from the source that would have otherwise funded the withdrawn Interstate segments is more appropriate than separately funding substitute transit projects from the General Fund. Direct funding from the Trust

STATEMENT OF JOHN J. KING, CHAIRMAN

METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS

Good morning, Mr. Chairman and Members of the Subcommittee. I am John J. King, Chairman of the Metropolitan Transit Authority of Harris County, Texas (Houston METRO). I am pleased to appear before you today to discuss the programs and plans of Houston METRO for providing mass transit services to the citizens of the Houston Metropolitan area. In particular, I would like to discuss our successful experiences with cooperative implementation of transportation projects, and contracting with privately-owned operators for Park and Ride commuter services. The insight gained by METRO in these areas may be valuable to the Subcommittee in assessing various proposals to change the role the federal government plays in assisting states and cities with highway and mass transit projects.

First, I would like to describe briefly Houston METRO and its current and planned programs. METRO operates a fleet of 1,078 buses providing cost-effective and reliable service to 75 million passengers per year. Despite the many improvements in transit services in Houston in recent years, and the widespread popularity of METRO's service, Houston continues to suffer from a crippling level of freeway congestion. For this reason, METRO has begun an ambitious program to develop and operate an expanded transit system to serve Houston well into the next century. The strong commitment of the people of Houston to this endeavor is evidenced by the enactment in 1978 of a one-cent sales tax dedicated to mass transit programs. The sales tax proceeds raised in this manner are combined with federal and other resources to develop appropriate, cost-effective transit programs. I want to apprise this Subcommittee that Houston METRO matches the federal government dollar for dollar on all capital projects funded under Section 3. We are able to do this because one cent of the local sales tax is specifically dedicated by Houstonians to support the local mass transit system. For fiscal year 1986, Houston METRO will receive approximately $170 million in sales tax revenue. In short, local transit needs receive substantial local financial support. Furthermore, because of this dedicated source of funds, Houston METRO does not obtain federal operating assistance to maintain its operations.

METRO is currently engaged in an ambitious five-year capital improvement program. As part of this program, we are constructing almost 70 miles of busways within the medians of Houston's extensive freeway system, with associated park and ride lots and strategically placed transit centers. Transitway operation began in Houston in 1984, and today we are operating 17 miles of transitways carrying 22,000 passengers per day.

The transitways being developed under the five-year capital improvement program are an integral part of METRO's long-range Regional Transit Plan. Under the long-range plan, METRO will proud of the achievements we have made through cooperation and coordination with the state highway department. We are also proud to have taken a leadership role in utilizing private contractors to provide needed transit services.

Of course, these achievements depend to a great extent on a strong federal commitment to mass transit. I am grateful for the commitment of the Chairman and Members of this Subcommittee to providing a sound federal mass transit assistance program. We believe that the achievements you have made possible in Houston represent a prudent investment for all parties concerned. Houston METRO supports the reauthorization of the Surface Transportation Act at increased funding levels.

Senator HECHT. Thank you very much.

Senator Heinz, you walked in. Do you have an opening statement?

Senator HEINZ. I do have some remarks but why don't I wait until this panel has concluded and there will be at the next panel an appropriate break?

Senator HECHT. Senator Dixon, do you have an opening statement?

STATEMENT OF SENATOR ALAN DIXON

Senator DIXON. Mr. Chairman, I am pleased to be here this morning as the Banking Committee begins oversight hearings on the Federal Transit Program. We have a distinguished group of witnesses before the committee this morning, and I look forward to their testimony.

I would like to say, however, before we begin hearing from today's witnesses, that I believe it is of the utmost importance that we report a reasonable transit program reauthorization bill in a timely manner. I hope we can do so in a bipartisan manner. I look forward to working with the chairman and the other members of the committee in crafting a bill that preserves Federal support for public transportation in a manner that we can all live with.

I would like to remind the members of this committee and those in attendence at this hearing that Federal transit spending is over 24 percent below what it was in 1981. Transit has been cut, and cut severely. I do not cite this figure because I am opposed to any further cuts in transit spending. I am well aware of the budgetary realities we are facing, and I know that recipients of Federal transit spending are willing to do their share to help us get budget deficits under control. However, I think that it is unreasonable and unfair to expect transit to take a cut of an additional over 60 percent, as the administration is proposing.

A cut of this magnitude would devastate transit systems around the country. It would mean the end of service at a great many systems. It would mean major fare increases and a pattern of deteriorating service for those that were somehow able to remain open.

I believe that the Federal Government has a role to play in helping to finance public transportation. I do not view this as a solely local responsibility. I would like to point out that Illinois is No. 47 among the States in the return it gets on its Federal tax dollar. Yet the administration does nothing to redress that inequity. Instead, it continues to propose the virtual elimination of those programs that do benefit Illinois. Benefits do not have to be precisely proportional for a given program for that program to be worthy of continued Federal support. Were that so, Federal funding for national defense should be ended, because only a few of the 50 States get back what they put into that program.

The Federal Government supports mass transit because transit is a legitimate way for States and local governments to meet their transportation needs. It has been successful. It is not without problems, but its overall record is one that this committee can be proud of.

I am willing to work with all those who have positive suggestions to make. I want a reasonable program that fits into the budget resolution that will soon be before the Senate. I want to work on a bipartisan basis to achieve that result. As I stated before however, I am opposed to gutting this program, and I will vigorously fight any efforts to place a totally disproportionate share of the cuts necessary to reduce budget deficits on this program.

Senator HECHT. Thank you Senator Dixon.

Senator D'Amato.

STATEMENT OF SENATOR ALFONSE M. D'AMATO

Mr. Chairman, I am pleased that these oversight hearings on the Federal Mass Transit Program are being held. The Urban Mass Transportation Administration [UMTA] of the U.S. Department of Transportation has the responsibility to administer this important program. I look forward to receiving the views of UMTA Administrator Stanley, as well as those of transit system operators and representatives of State and local governments, unions, associations, private providers, and academia.

The Surface Transportation Assistance Act [STAA] has governed UTMA's Program since 1982. That landmark act contained, for the very first time, a dedicated source of transit funding. I am proud of my role in writing the critical language which earmarked one penny from the nickle increase in gas and motor fuels taxes specifically for transit—approximately $1.1 billion per year.

Section 3 of the Urban Mass Transit Act, as amended, authorizes the use of the $1.1 billion in gas tax funds for discretionary capital grants to build new start projects, as well as projects for rail modernization and for bus needs. The gas tax funds are also available for projects to provide better transit services to the elderly and handicapped—section 16(b)—as well as to planning services—section 8—and projects which demonstrate innovative techniques in the management and operation of transit systems—section 4(i).

Section 9 of the act provides for over $8 billion of formula grants derived from general tax revenues. These grants are provided to cover the transit operating and capital needs of small and large urbanized areas, and are distributed according to factors taking into account both population and service requirements. In addition, section 18 establishes a similar program for nonurban areas.

We will soon face the challenge of reauthorizing the UMTA Program which will expire at the close of fiscal year 1986. The hearings this subcommittee is holding today and tomorrow will form the foundation for reshaping the Federal Transit Program for the future. I will introduce shortly a reauthorization bill which will extend the program for another 4 years. This legislation will authorize the release of an additional $650 million above current funding levels from the mass transit account of the Highway Trust Fund. A total of $1.75 billion per year will be provided from fiscal year 1987 through fiscal year 1990. The Congressional Budget Office has assured me that these funds represent a prudent funding level with respect to the long-term stability of the mass transit account.

In order to make these additional gas tax funds available to grantees who traditionally depend mainly upon transit formula moneys, $200 million of these extra funds will be earmarked for capital grants to areas of under 1 million in population. I believe this change is needed to give smaller grantees more of a stake in the portion of the Transit Program which is funded through user fees.

Other changes to be included in the new legislation are an expanded definition of associated capital maintenance items, multiyear contracting, project management plans, the use of lapsed funds, transit crime prevention, rural transportation equity, privatization, and various other provisions to fine tune and improve UMTA's current program.

In planning for fiscal year 1987, we are going to have to make critical budgetary choices with respect to all federally funded programs, including transit. Nevertheless, enhancing the safe and efficient transportation of people and goods is the common goal of all the members of this committee.

I have always been an enthusiastic proponent of Federal aid to public transit. In 1982, during drafting of the STAA, I toiled with my colleagues to create a statute that carefully balanced the competing, yet complementary, needs of our Highway and Mass Transit Programs. I believe the resulting act epitomized the spirit of cooperation and compromise that is the essence of lawmaking.

The administration's proposed UMTA budget for fiscal year 1987 assumes that Congress will have taken dramatic action to alter the nature of the Federal-Aid Transit Program. The administration's clear objective in this regard is to minimize Federal aid to transit. The new program would eliminate all use of general revenue funds for transit. Moneys derived from the transit penny would be funneled into the same pot as moneys dedicated to highway use. A new block grant would allocate these moneys to the States for use on either highway or transit projects. Thus, States that have little need for transit funds will be able to use these scarce funds for nontransit purposes. Transit-dependent States will be more hard pressed than ever before to support their own transit services.

This plan is not fair to the Transit Program or to the Highway Program. If the required enabling legislation was enacted, it would disrupt transit planning and would work severe hardhips on transit-dependent communities. Highway interests also would be shortchanged: Although they would gain access to the transit penny, the overall available funds for highway projects would be reduced by $1.9 billion. Moreover, the proposal is certainly not fair to the American taxpayer who deserves the continued benefit of a cohesive Federal Transit Program with predictable levels of support.

The elimination of general revenue funding for transit would cut the program by at least $2.1 billion—from the fiscal year 1986 appropriated level—a cut of 68 percent. However, the final cut will be even larger because the commingling of the transit penny with highway moneys will enable States without strong transit needs to channel these funds to highway projects. States that depend upon Federal transit aid will find these funds in short supply and subject to invasion for highway projects.

If this budget proposal is carried out, it is likely to destroy the Federal Transit Program. We are repeatedly told that funding for transit is a middle-class subsidy, a local responsibility, and not an appropriate role for the Federal Government. Quite simply, this is nonsense: Statistics show that it is the poor, the elderly, and the handicapped who most heavily depend upon reliable and affordable transit services to get to work, to school, and to carry on their daily lives.

Moreover, the benefits of transit service are no more local than those of many other worthwhile Federal programs. In the face of annual budgetary assaults on transit, Congress has repeatedly reaffirmed and recognized a commitment, rooted in sound public policy, to a Federal balanced transit program.

Regional differences and needs are important. States like New York, New Jersey, and Pennsylvania may receive more transit funds than States such as North Dakota, Iowa, or Oklahoma; but, that is where the funds are needed most. Equal sharing of Federal funds among the States for specific programs may seem like a desirable goal. However, if funds were equally distributed for programs like transit, or military bases, or grazing land subsidies, or hydroelectric power, the obvious result would be waste and gross unfairness.

The budget proposal for fiscal year 1987 pits one State against another in the hope that the smaller number of transit-dependent States will lose to the larger number of highway oriented States. That is not the way we do business in the Senate. I believe that our tradition of recognizing and appreciating the diverse nature of our States is alive and well. In addition, even though some of the concepts behind the administration's urban mobility block grant are worthwhile, such as less redtape, swifter grantmaking, and reliance on local decisionmaking, the low level of funding makes the block grant unsupportable.

Mr. Chairman, I appreciate this opportunity to offer my comments to this subcommittee as we review the Federal role in transit programs.

Thank you, Mr. Chairman.

Senator HECHT. Mr. Perovich.

STATEMENT OF ELLIOTT PEROVICH, CHAIRMAN, REGIONAL TRANSIT BOARD, MINNEAPOLIS/ST. PAUL

Mr. PEROVICH. Mr. Chairman and members of the committee, my name is Elliott Perovich and I'm chairman of the regional transit board of the twin cities metropolitan area of Minneapolis/St. Paul.

In the interest of time, Mr. Chairman, I will just very quickly give you a little bit of a background so you may understand some of our positions with respect to the testimony.

REGIONAL TRANSIT BOARD

We are a new agency. The regional transit board was established by the Minnesota State Legislature in 1984 after an interim study commission was studying the problems of planning transit in the Twin Cities metro area and our lack of progress in that particular area.

It is rather unique in the fact that the regional transit board is strictly a policy planning and implementation agency. As Ralph Stanley alluded to earlier, it is not an operating agency. We will not operate transit. We will only contract for that and deal with the agency that existed prior to us which is the metropolitan transit commission [MTC] which operates the large bus system of about 1,000-plus buses in the Twin Cities metro area.

So with that background, Mr. Chairman, I'd like to split my testimony into two parts at the suggestion of the staff and I'm going to very quickly run down some responses to the suggestions you made in the letter of invitation. The first part is to respond to our position on that with respect to the budget items and others and then I would like to probably spend the greater share of that time in our efforts on the competitive bidding process which we are looking at very seriously in the twin cities metro area and where we are coming with that.

FEDERAL ASSISTANCE OF $8.5 MILLION PER YEAR

With respect to the budget situation, I think it would be no surprise to all of you that we are in opposition to the proposed elimination of operating assistance or very severe cuts in that. We are very strong believers in Minnesota in the local, State, and Federal partnership. Just for your information, the percentage of that in transit in the Twin Cities metro area—and we are about 2.25 million population there—there is 81 percent local, 11 percent State, and 8 percent Federal. But that 8 percent Federal amounts to about $8.5 million per year in operating assistance to our transit system. That 81 percent local, a good share of that is a 2-mil real estate tax which is for different levels of service.

So we do support the freeze at present levels of operating assistance. We would oppose any elimination of operating assistance. However, we understand the budget deficit situation and we would also support the deficit reduction at a fair and equitable level in all programs from our standpoint.

With respect to the Block Grant Program, we would oppose the Block Grant Program proposed by the administration for the simple reason—two reasons. One, it eliminates the operating assistance for populations of 200,000 and over, and also, we think it would establish a negative competitive situation between highways and transit, particularly in our State of Minnesota, in which we have a very good working relationship now with separate funds that are earmarked and that we allocate on the basis of our joint efforts.

We think there will be competition there and frankly we are concerned whether we at transit would receive our share of funds.

We also support full allocation of the mass transit fund that was alluded to earlier in testimony. The administration allocation projected out is about $1.2 billion and as indicated in earlier testimony we have indications there are $1.9 billion there. We would like to see that continued.

The State of Minnesota, by the way, contributes about $20 million a year to that fund and receives back only from $3 to $6 million per year. We would like the Congress to consider and would recommend a consideration of some type of a guarantee back to the State of a portion of that money as we do with the highway money.

With respect to concerns of the UMTA operation and any problems that it generates for us, I don't think there's anything of any serious nature. Our only concern is—and I think Mr. Stanley has indicated over the last several months and Ken Butler as well that they are addressing the issue of the long delays in approving grant applications. And more seriously for us is the approval of the Formula Grant Program which we think should be practically automatic with State assurances, and we have had experience in the time that we apply for those formula programs which are allocated in the Federal Register as long as 7 to 8 months from the time the application is submitted until the funds are actually received.

NEED FOR RELIABLE TIMING OF FUNDING

We need to have, as Mr. King said earlier, a reliable source and reliable timing of funding received from the standpoint of the fact that we work with a very large sum of money.

The question about the local, State, and private sector contributions, very quickly, I think we're going to see some very serious roadblocks to local and State participation in any large capital projects simply or partially from the fact that many former Federal fund programs are now being shuffled back to the States and to the local government unit, and removal of revenue sharing has generated a problem for us in dealing with the local government units on funding of transit on the local level in some of the smaller systems.

We do, however, in the Twin Cities area look forward to the private sector. We are having a regular dialog with them and I personally see that as a source of funding for the future not only for capital but also for some upfront operating kinds of assistance.

Senator HECHT. Excuse me. Your time is up. I'm not going to stop you. You've come a long way to testify. But please try and summarize.

Mr. PEROVICH. OK. I'll summarize quickly and then I want to get to the competitive bidding.

I guess I would say in summary as far as the funding is concerned that we would like some consideration and I'm sure that will happen with respect to any serious cuts that are made because we see transit as very vital to the economic welfare of the area.

We are very actively involved in considering new service and competitive bidding of service and, as Mr. Stanley said earlier, not only the competitive bidding of private operators but it would be also a competitive bidding process in which our public operators could provide.

We've done a transit service needs analysis in our area. We are setting up service and financial standards for our routes and when those routes fall below that level we will do an analysis on those and they will be revamped or restructured. If they are restructured or there is any new major service changes those will be put up for competitive bidding not only from the private but also the public sector.

And we do have in the process now a combined program on I-394 with the Federal Highway Administration and our Minnesota Department of Transportation and the regional transit board to set up a completely new transit service—we have about 15 to 20 percent of our transit service in the metro area in this project and we are looking forward to competitively bidding that.

With that, Mr. Chairman, I will stop and we will submit the complete testimony for the record and submit some additional testimony before the deadline.

[The complete prepared statement follows:]

establish a loop connection to integrate the radial transitways into a regional system. The plan has been adopted by the METRO Board in conceptual form, and we are currently conducting an extensive alternatives analysis on the loop connector system to ensure that the technology selected is affordable and assures a high level of ridership.

COOPERATIVE PLANNING AND DEVELOPMENT:

One of the hallmarks of METRO's transit programs has been the high degree of cooperation among various local and state planning agencies which have had a hand in improving Houston's transportation system. The success which METRO has experienced in designing, building and operating mass transit facilities is directly attributable to the strong consensus we have achieved among state and local government, the business community, and the general public.

The strong consensus in Houston regarding METRO's undertakings is largely the result of a unique initiative we have made in cooperative decision-making concerning transportation matters. We have developed an informal group of officials known as the Transportation Coordinating Committee, also known as "the Supergroup" which meets on a monthly basis to foster agreement and cooperation among all state and local officials concerned with Houston's transportation needs. The "Supergroup" consists of Houston's Mayor Kathy Whitmire, Harris County Judge Jon Lindsay, the executive director of the county toll road authority, the Chairman of the Houston Chamber of Commerce's Regional Mobility Committee, the Chairman of the Texas State Department of Highways and Public Transportation (SDHPT) Bob Lanier and the district engineer, and finally, myself as Chairman of METRO along with METRO's General Manager and Chairman of the Future and Finance Committees of METRO's Board Alan F. Kiepper.

This ad hoc group meets on a monthly basis solely and exclusively to address a variety of transportation issues in the Houston area. Meetings typically result in informal agreements on coordinated policy actions which will be undertaken by the participants. One of the best examples of the achievements facilitated through this process is the extensive cooperation which exists between METRO and SDHPT regarding busways in the medians of freeways. Whenever SDHPT considers reconstruction of the local freeways, it consults with METRO to determine METRO's interest in using the median strip without cost for transitways.

METRO'S COOPERATION WITH SDHPT:

Because Houston traditionally has been heavily dependent on freeways to meet its transportation needs, the City has developed an extensive system of regional freeways connecting outlying residential areas with the several downtown employment centers.

Although Houston's freeways are heavily congested and unable by themselves to meet Houston's transportation needs, they form the backbone of the City's infrastructure. In these circumstances, the success of a mass transit program is entirely dependent upon thorough integration and coordination with the regional highway system. This can only be achieved through extensive cooperation between METRO and SDHPT. The degree of such cooperation in Houston has been outstanding.

METRO and the SDHPT are partners in the design and construction of the 70-miles of transitways which comprise METRO's five year capital improvement program. By pooling METRO and SDHPT resources and expertise, we have been able to achieve substantial cost savings while building an integrated transportation system which really works for Houston. METRO's transitways are being constructed in the medians of existing freeways constructed and operated by SDHPT. In most cases, transitway construction is being undertaken along with expansion of the freeways. The level of support and cooperation needed to successfully carry out such a project is very great and has regularly been achieved.

As examples of the closeness of this cooperation, SDHPT has in some instances undertaken design and construction of METRO

Park and Ride Lots, while in other cases, METRO has been responsible for contracting for and management of freeway widening projects. Because of this close coordination, transitways and freeway expansions have been built faster and cheaper than would otherwise be possible. The result is a cost-effective, appropriate transportation system in which transit and freeway developments complement rather than compete with each other.

METRO'S EXPERIENCE WITH CONTRACTED SERVICES:

METRO has considerable experience contracting with private operators for transit services, and has plans for further use of private operators to increase the level of service available to METRO passengers. At this point, we are using private carriers for approximately 35 percent of our Park and Ride service. This will increase significantly as new Park and Ride facilities are added to the expanding METRO transitway system. Our experience in this area has been extremely positive and has confirmed our suspicions that privately contracted services can reduce our operating costs.

In order to use contracted-for services to provide cost-effective service improvements, a transit authority, in our opinion, must retain proper leverage over its contractors. In order to obtain favorable contract bids, the authority must itself offer high quality, competitive service. Since 1983, we found that substantial improvements in the quality of service provided by METRO caused a drop in the cost of contracted-for services by over thirty percent. In short, by sharpening our own pencils and providing high quality, reliable service, we forced our bidders to sharpen theirs as well and lower their prices. Based on this experience, METRO would recommend that any transit authority seeking to reduce costs or increase service by "contracting out" should begin by improving its own service quality to enhance its bargaining position as a competitor to the private carrier for the designated service.

Another important lesson we have learned is that high quality service depends upon a strong contract which spells out performance criteria and provides strong disincentives for service deficiencies. METRO's contracts with private operators include stringent quality assurance standards covering on-time performance, missed trips, cleanliness and other parameters. Contractors who fail to meet the standards are subject to financial penalties. We have found that these safeguards result in substantial improvements in competitively procured services.

One of the problems associated with contracting out for services is the difficulty of comparing the cost of contracted-for services with that of the authority. At METRO, we have made considerable advances in this area and have worked closely with

UMTA to share the results with other transit authorities. We have developed a detailed "comparable cost model" for comparing private operator bids with METRO's cost of providing the same service. The model excludes from METRO's costs certain costs such as planning, and includes in contractor's bids certain other costs such as contract administration and supervision.

In some instances, significant cost savings can be achieved by contracting out. Last year, METRO invited bids to operate 5 Park and Ride lots involving operation of 80 buses. We received a bid from a private operator of $84 per hour of service, compared with $111 per hour for METRO. METRO plans to increase its reliance on private operators in a careful way, and expects in the near future to contract for some local bus service as well as Park and Ride service. However, METRO must never lose its ability or capacity to effectively compete for the same service nor sacrifice the quality of its service generally. I believe some of these experiences at METRO contributed to METRO being designated by APTA as the most improved large transit authority for 1985.

CONCLUSION:

Mr. Chairman, it has been a pleasure to appear before you to discuss some of METRO's experience in developing and operating a successful mass transit system for Houston. We, at METRO, are

AS YOU CAN SEE, WE ARE DIVERSIFYING TRANSIT SERVICES IN OUR METRO AREA. WE FEEL POSITIVELY ABOUT THE RTB ORGANIZATION AND ITS ABILITY TO GET INVOLVED WITH ACTIVITIES THAT ALLOW FOR A COST-EFFECTIVE TRANSIT SYSTEM THAT IS RESPONSIVE TO THE NEEDS OF OUR CITIZENS. WE HOPE THAT THE PROCESSES AND ACTIVITIES THAT I JUST DESCRIBED WILL HELP OTHER TRANSIT POLICYMAKERS TO DETERMINE WHEN AND HOW COMPETITIVE BIDDING CAN BENEFIT THEM THROUGH BETTER AND MOST COST-EFFECTIVE TRANSIT SERVICES.

Senator **Hecht**. Thank you very much.

Senator Heinz, did you want to give your opening statement now?

OPENING STATEMENT OF SENATOR HEINZ

Senator **Heinz**. Yes. Thank you very much, Mr. Chairman.

I am also going to, for this panel and for the Administrator, Mr. Stanley, submit my questions in writing. I do have a few comments I would like to make.

First, I would like to commend you, Mr. Chairman, for scheduling this hearing. Mass transit, as we all know, is essential to the functioning of not just our large cities but many of our smaller communities. Some 80 percent of the American people have access to mass transit. Not all of them use it, of course, but as we learned in the city of Philadelphia, the largest city in my State, when we had a strike about 4 weeks ago, the entire city and many of its suburbs come to an absolute halt when mass transit isn't available to move that surplus of individuals, people, commuters, shoppers, all the rest, who if they didn't have mass transit would have to climb into their cars and cause just an utter wall-to-wall traffic jam.

And I always like to mention that because it's not just the people who ride on mass transit who have the benefit of mass transit. It is everybody who moves or wants to that has the benefit of mass transit.

Speaking for myself and I know Senator D'Amato and others, there are many of us who believe that it is important to have a mass transit bill that will reauthorize the programs in the 1982 act, the Surface Transportation Act that is expiring. I believe that the Federal Government does have an appropriate role in providing support for our Nation's transit systems, that sections 3 and 9 need to be substantially reauthorized. It's my hope that the discretionary Capital Grants Program, section 3, can actually do what those of us who serve on the Finance Committee intended it to do when we put that penny setaside in there—the arrangement was that it was going to be spent, not reserved; and second, that the Operating and Capital Programs, section 9, the Formula Program to which you referred, Mr. Perovich, a minute ago, is retained substantially—it can be improved, but substantially as it is today.

Mass transit has in fact experienced some significant funding cuts over the last 5 years, probably more than most programs. So I don't necessarily want to agree that it ought to take another round of cuts. I think we ought to look at those programs that haven't been cut first. Maybe we'll still end up coming back to mass transit, but in fairness the programs before this committee generally and Senator Hecht's subcommittee in particular, the Housing and Urban Affairs Subcommittee, have been cut enormously, maybe as much as 75 percent, the largest portion of that being assisted housing, but tens of billions of dollars have been saved by this committee. If every other committee had done what we have done, I don't think there would be a Federal deficit.

The only other comment I'd like to make is that I'm not going to be able to stay the entire morning here. Indeed I'm going to have to go to my Senate Finance Committee. We have a bill called tax reform that we're marking up. We have already had some 30 days of hearing on it. I don't think Senator Hecht has 30 days of hearings in mind for mass transit. It's all right. You can relax. But I am going to absent myself and I particularly want to welcome one witness on the next panel who is testifying here on behalf of the National Association of Counties, Bob Thompson, who is one of our most esteemed county commissioners in our State, not to mention in Chester County, and, Bob, there is one question I would like you to address that I won't have a chance to pose to you in person but maybe when it comes time to answer questions I would appreciate your discussion, not just as you do in some detail in your testimony about the importance of continued Federal support to transit authorities for the communities they serve, but it would be useful I think to enlarge on the subject of the importance of operating assistance, whether they're served by large or not so large transit authorities, whether it's Chester County, whether it's Lehigh County or whether it's Philadelphia or Allegheny County, the areas served by two of the larger systems, PAT and SEPTA.

Mr. Chairman, I thank you for yielding to me. I apologize that I have a conflict this morning. I know you understand these things and I commend you once again for holding this hearing.

Senator HECHT. Are you on the tax bill this morning, Senator?

Senator HEINZ. Guilty as charged, Mr. Chairman.

Senator HECHT. Well, there's one way to end your conflict. Throw it out.

Senator HEINZ. No comment, Mr. Chairman, but I'm grateful to you for having brought a very distinguished group of witnesses from all over the country. I'm certain that there are improvements we can make in the bill and that with your leadership, Mr. Chairman, we will make those necessary improvements.

Senator HECHT. Thank you, Senator. It's not just an Eastern proposal, mass transit, because it's very important out West, too, throughout the country.

Senator HEINZ. Yes.

Senator HECHT. Thank you for appearing.

[Senator Heinz' complete statement follows:]

STATEMENT OF SENATOR JOHN HEINZ

Mr. Chairman, I would like to speak briefly today regarding the reauthorization of Federal Mass Transit Programs. First, let me commend you for holding these hearings. You have gathered an excellent collection of witnesses representing the major interests who have a stake in the future of mass transit. I can see from the witness list that we may see healthy differences of opinion with regard to these Federal programs.

I believe that it is essential that this committee act affirmatively this year and produce a reauthorization bill. With the expiration of the 1982 Surface Transportation Assistance Act, we must make decisions regarding the future of our operating and capital programs. I believe that the Federal Government does have an appropriate role in providing support to our Nation's public transit systems, and that we should reauthorize the section 9 and section 3 programs, and maintain existing levels of funding. We all know that mass transit has already experienced significant funding reductions over the past 5 years. Mass transit systems provide many direct and obvious benefits with regard to urban mobility, particularly for the poor and the elderly who have no other means of transportation. I also believe there are more subtle and indirect benefits provided by mass transit, including reduced traffic congestion and lost work time and air pollution that results from this, and elimination of other costs such as parking fees. I hope we can quantify some of these benefits during committee consideration of the legislation this year.

I do believe that there are some changes that should be made in the 1982 act to improve the functioning of our programs. I will shortly be introducing legislation, along with Senator D'Amato, and hopefully other members of this committee, that will reauthorize the major Federal Transit Programs and address some of what we feel to be needed changes in the law. I look forward to working with you and other members of the committee, as well as the witnesses we have assembled today and tomorrow, to produce and report out a transit reauthorization bill we all can support.

COMPETITIVE BIDDING

Senator HECHT. Let's go right on with our questions, either one of you or both. The Amalgamated Transit Union has stated that competitive bidding of service contracts in the transit industry is unsuited to public needs for cost efficient and effective service and that private service contracts will only go to the most lucrative routes.

I'd like to hear your comments on this statement.

Mr. PEROVICH. Mr. Chairman, I guess I would disagree with that. In our analysis of our routes—and we are working very closely with Amalgamated by the way in our particular area since they do have the contract for MTC—we do not see us picking the most lucrative routes. We look at restructuring. We look at new service. We look at those least cost-effective routes as those that we will put up for competitive bidding. And we have no intention whatsoever of plucking the plums, so to call it, out of the system and bidding only those. Probably we will bid the least lucrative routes in fact.

Senator HECHT. Do you have anything, Mr. King?

Mr. KING. I have nothing to add.

Senator HECHT. Could you identify any problems with the current program which impedes competitive bidding?

Mr. KING. I don't know of anything in the current program that impedes competitive bidding. We are doing competitive bidding very vigorously to private carriers in Houston. And 35 percent of all of our park and ride lots are competitively bid and run by private carriers.

Mr. PEROVICH. Mr. Chairman, I might just express a concern that we haven't got to that point yet but our two concerns we really have is, No. 1, when we get into regular route service I think it's a little different than your park and ride and some of your special service.

In a regular route service I think, No. 1, we are concerned whether there are enough private providers out there to bid; No. 2, we are concerned about the folks that are available that do not have the capital resources for the capital investments necessary or for depreciation on that capital equipment. We would want to talk about that.

We are also, No. 2, concerned about the amount of money it cost our own agency to go through this more costly process of allocating service out.

Senator HECHT. What are your thoughts on establishing discretionary grants selection criteria?

Mr. KING. A couple years ago UMTA came out with the investment criteria for determining cost-effective projects. I think, as a whole, that's what I suspect most transit authorities go through anyway when they're allocating a limited amount of resources, is how do we get the most bang for our dollars; and therefore we go through, as we should as a board of directors, a rigorous investment criteria and I don't believe that UMTA's criteria are any more stringent than what we as business people go through anyway.

Mr. PEROVICH. Mr. Chairman, I would agree with that. We're looking at a very similar process of cost-effective analysis and evaluation, so I don't see any real problem. I guess I'd want to know exactly what the total scope of the criteria was, but in general I don't have any real problem with that.

Senator HECHT. Mr. Perovich, in allowing public transit to competitively bid on service contracts, how do you account for the subsidy of these systems so that the bidding is fair?

Mr. PEROVICH. Basically, Mr. Chairman, we have several private operators now and the way we deal with that issue is that they submit to us a service management plan which we negotiate. That's the amount of service that's out there. We then look at the cost of providing that service and then we allocate back a fair return on the capital investment so that in essence becomes a nonprofit kind of an effort. Basically, that's the way we function right now.

Senator HECHT. Do either of you have a private sector representative on your transit boards?

Mr. KING. No, although we are adopting a privatization policy this month at metro and will establish a committee, which committee will have a private sector representative.

Mr. PEROVICH. Mr. Chairman, the answer to that is "No." And I would just add one editorial comment quickly. We would be opposed to that. We have an eight-person board. We do have a regular meeting process and a newsletter that we are dealing with the private providers and we think that's the way to give them imput to the hearing process and in the initial planning stages—and they are involved and represented on all of our planning groups and advisory groups.

Mr. KING. I would say that all nine of us on my board are private sector people anyway.

Senator HECHT. OK. What guidance can you give this committee on section 13(c) administrative reforms?

Mr. PEROVICH. Mr. Chairman, let me react to that from the State of Minnesota. We work very closely and we are a very strong union State and we work very closely with them. We have a similar provision in our State legislation. It has not to this point been a problem for us in the State of Minnesota operating with that.

Mr. KING. We have one union. We don't have any problem.

Senator HECHT. As I mentioned before, there will be many questions for you and the staff will be in contact with you. I thank you for coming long distances to appear this morning. We'll stay in contact.

Mr. KING. We're delighted to be invited, Mr. Chairman.

Mr. PEROVICH. Thank you, Mr. Chairman.

Senator HECHT. Is panel No. 2 here? Thank you all for readjusting your schedule.

Miss Kane, do you want to start off?

STATEMENT OF BETTY ANN KANE, COUNCIL MEMBER, DISTRICT OF COLUMBIA, REPRESENTING THE NATIONAL LEAGUE OF CITIES

Ms. KANE. Thank you, Mr. Chairman. I would be happy to start.

I am Betty Ann Kane, a member of the city council here in Washington, DC, and a member of the National League of Cities' Transportation and Communications Steering Committee. I am here this morning to testify on behalf of NLC and the 15,000 cities we represent on the reauthorization of the Urban Mass Transportation Act of 1964.

I have a statement, Mr. Chairman, that I will submit for the record.

Senator HECHT. Thank you.

Ms. KANE. I will summarize and go to some of the specific questions that the committee has asked.

We say by way of preface that our recommendations for an effective Federal role in providing assistance to public transportation are based on two presumptions: that public transportation is an essential public service whose primary objective is to provide mobility for all people in all places, regardless of ability to pay; and that public transportation contributes significantly to the viability of the Nation's cities and therefore its provision is in the national interest.

Each level of government, we believe, as well as the private sector has an appropriate role to play in providing and ensuring the availability of adequate public transit.

BUDGET CUTS FOR FISCAL YEAR 1987

You have asked us to discuss the proposed mass transit budgets for fiscal year 1987, including the administration's and the Senate Budget Committee's on the question of program funding levels.

The National League of Cities believes that the administration's fiscal year 1987 proposal to reduce Federal assistance for mass transit by 67 percent is totally unacceptable. The Senate Budget Committee's proposal to freeze Federal transit funding for capital assistance and to reduce operating assistance by 20 percent is certainly a significant improvement over the administration's proposal; however, we cannot support the reduction in operating assistance. We believe the Federal Government has an obligation to continue to provide assistance for operation of transit systems, particularly because, according to figures from AASHTO, Federal mandates increase the cost of operating transit systems by 35 percent and these figures were calculated before the Fair Labor Standards

Act was mandatorily applicable to State and local governments. Therefore, the cost is greater than 35 percent.

Without operating assistance, many systems, particularly in small urban and rural areas, will have to significantly reduce or cease service altogether.

You asked us to comment on the mass transit fund issues and proposals such as the transit highway block grant and whether small States get a fair share of the gas tax.

We oppose the administration's ground transportation block grant because we believe the ultimate purpose of that proposal is to reduce or eliminate any Federal involvement in transit programs, an objective we find unacceptable.

We also oppose the administration's block grant proposal because it weakens the local role in transit. It weakens the planning process for cities under 200,000. It mandates privatization and it weakens operating assistance for these smaller areas, as we mentioned before.

On the issue of privatization, let me say that we take issue with UMTA's assumption that the most important objective of public transportation is to reduce costs. While cost reductions could and should be made whenever possible, providing service at least cost should not be the sole criterion guiding service decisions because this is an essential public service.

FAULTS OF PRIVATIZATION

Privatization seems to have become something of a panacea designed to solve many problems relating to deficit reduction. I quote in my testimony—and I'll just refer very briefly to a recent article by Robert Kuttner in the March 10 issue of Business Week where he says:

> The appeals of contracting out government become less apparent when one takes a closer look. In theory, contracting out government services brings to the public realm all of the virtues of the private market—flexibility, innovation, and competition. In practice, however, contracting out government begs the ancient political question: Who will watch the watchers? The gross inefficiency of Pentagon contracting * * *

the writer goes on to say:

> Probably the most privatized portion of government, is hardly an advertisement for the superiority of privatization. In local government there is evidence that when too many public services are contracted out there are just not enough public officials and too little public sector esprit de corps to keep the process honest. Beyond a certain point, government by contract couples the inefficiencies of the public sector with the less savory aspects of the private sector.

We believe small States would be assured a fair share of the gas tax if a portion of funds from the mass transit account of the Highway Trust Fund were allocated on a formula basis.

The question of whether the Mass Transit Act is in need of a major rewrite or just fine tuning, we believe the program could be improved by establishing a better linkage between the Discretionary and Formula Programs and we would support such changes as allocating a portion of the gas tax revenue to fund the Formula Program, establishing specific criteria for new starts and developing incentives for private sector involvement.

We believe that, as I said, a portion of the trust fund should be utilized for funding transit formula grants and that there are incentives that can be established for greater implementation of competitive bidding and maintenance.

The current UMTA regulatory hurdles that could be reduced or eliminated to foster efficiency and funding predictability, include the recent privatization guidelines. The potential hurdles set up in UMTA's privatization guidelines should be eliminated by direct congressional action prohibiting their implementation. We believe that Congress should clarify the intent of section 13(c), should authorize selection criteria for discretionary grants, and those criteria should include, but not be limited to, such factors as projected ridership, population, and population density of the area to be served, cost effectiveness of the proposal, relationship of the proposal to transit needs, and local financial commitment to the project taking into consideration the ability of the local jurisdiction to pay, which would include demographic as well as legal ability.

On the two labor issues, let me finish with those, on section 13(c), while the National League of Cities supports improvements and clarification of the 13(c) requirements, we do not support elimination of these provisions. We believe Congress should clarify the intent of section 13(c) as it applies to both Rural and Urban Transportation Programs. Specifically, Congress should determine whether the requirements apply to new employees, all potentially affected employees, or only those employed by the grantee.

Congress should also clarify whether requirements apply in States which expressly prohibit public employee collective bargaining and whether services contracted with outside firms are allowable under section 13(c) and whether 13(c) requirements apply to paratransit private sector transportation and intercity bus service.

Senator HECHT. Excuse me. Your time is up. I'm not going to cut you off, but just try and summarize.

Ms. KANE. My last issue is Davis-Bacon. In December, the League of Cities membership voted to call for repeal of Davis-Bacon. I believe in part the vote reflected the membership's frustration with implementation of the program. There were delays, a long lag time between the resolution of the court suit challenging the revision and implementation of the regulations. Those regulations did conform with the previous NLC policy in terms of improving them.

The new most recent attempts to revise, adversely from our perspective, the regulations also led to our support for repeal of the law.

Thank you.

[The complete prepared statement follows:]

REGIONAL TRANSIT BOARD

Suite 270 Metro Square Building, Saint Paul, Minnesota 55101

WRITTEN TESTIMONY
OF
ELLIOTT PEROVICH
CHAIRMAN OF THE
REGIONAL TRANSIT BOARD
OF THE
TWIN CITIES, MINNESOTA

MR. CHAIRMAN AND MEMBERS OF THE HOUSING AND URBAN AFFAIRS SUBCOMMITTEE, MY NAME IS ELLIOTT PEROVICH AND I AM CHAIRMAN OF THE REGIONAL TRANSIT BOARD OF THE TWIN CITIES AREA OF MINNESOTA. IT IS A PLEASURE TO BE HERE THIS MORNING TO TESTIFY BEFORE THE HOUSING AND URBAN AFFAIRS SUBCOMMITTEE OF THE SENATE BANKING COMMITTEE REGARDING MASS TRANSIT ISSUES.

LET ME PREFACE MY REMARKS BY BRIEFLY INFORMING THE SUBCOMMITTEE ABOUT MY AGENCY AND ITS UNIQUE CHARACTER. THE REGIONAL TRANSIT BOARD OR RTB WAS CREATED BY ACTION OF OUR STATE LEGISLATURE IN 1984. OUR ENABLING LEGISLATION WAS PASSED AFTER EXTENSIVE STUDY BY A LEGISLATIVE COMMISSION ON TRANSIT THAT EXAMINED THE DELIVERY OF TRANSIT SERVICE ON OUR SEVEN-COUNTY, 2 and 1/4 MILLION POPULATION, METROPOLITAN AREA.

IT WAS THE DECISION OF THIS LEGISLATIVE COMMISSION TO SEPARATE THE OPERATIONS END OF THE TRANSIT INDUSTRY FROM THE PLANNING AND POLICY DEVELOPMENT ASPECTS OF THE INDUSTRY. OUR METROPOLITAN TRANSIT COMMISSION WAS GIVEN AUTHORITY ONLY TO OPERATE THE SECOND-LARGEST ALL-BUS BUS SYSTEM IN THE NATION. THE PLANNING AND POLICY AUTHORITY FOR TRANSIT WAS VESTED WITH THE REGIONAL TRANSIT BOARD. TRANSIT EXPERTS FROM AROUND THE NATION HAVE BEEN COMPLIMENTARY OF THIS STRUCTURE, WHICH IS UNIQUE FOR A TRANSIT AGENCY, AND MANY HAVE PUBLICLY STATED THAT THIS IS THE PROPER WAY TO PROCEED IF WE ARE TO MAKE MASS TRANSIT PLANNING AND INNOVATION EFFECTIVE. SUCH A STRUCTURE ALLOWS THE PLANNING AND POLICY FORMULATION ASPECTS OF OUR REGIONAL TRANSIT TO BE ASSESSED AND EVALUATED FROM A BROADER-BASED PROSPECTIVE.

OUR BOARD HAS EIGHT MEMBERS REPRESENTING GEOGRAPHIC DISTRICTS WHO ARE CITIZEN MEMBERS PLUS MYSELF AS A FULL-TIME CHAIR. WE ARE STAFFED BY APPROXIMATELY 15 PROFESSIONALS REPRESENTING EXPERTISE IN PLANNING, PROGRAM ADMINISTRATION, FINANCIAL ANALYSIS AND PUBLIC INFORMATION. WE HAVE ONLY BEEN STAFFED TO OUR CURRENT COMPLEMENT SINCE LAST FALL.

CHAIRMAN HECHT HAS SUGGESTED A NUMBER OF CURRENT ISSUES IN TRANSIT TO ADDRESS WITH YOU THIS MORNING. I WOULD LIKE TO ADDRESS THE PROPOSED MASS TRANSIT BUDGETS FOR FISCAL YEAR 1987 FIRST OF ALL. THERE ARE SEVERAL AREAS OF BUDGETARY CONCERNS THAT I WOULD LIKE TO COMMENT ON, INCLUDING FUNDING REDUCTIONS FOR OPERATING ASSISTANCE, BLOCK GRANT PROPOSALS, MASS TRANSIT AND TRUST FUND MONIES. FIRST, WE ARE STRONGLY OPPOSING PROPOSED MAJOR REDUCTIONS OR ELIMINATION OF THE OPERATING ASSISTANCE FUNDS. WE CONTINUE TO SUPPORT THE

LOCAL, STATE AND FEDERAL PARTNERSHIP FOR TRANSIT OPERATIONS. AT THE PRESENT TIME IN THE TWIN CITIES, THAT PARTNERSHIP RATIO IS 81-PERCENT LOCAL, 11-PERCENT STATE AND 8-PERCENT FEDERAL. THIS MEANS APPROXIMATELY $8.5 MILLION FEDERAL OPERATING ASSISTANCE IN FISCAL YEAR 1985. WE SUPPORT A FREEZE ON OPERATING ASSISTANCE AT FISCAL YEAR 1985 LEVELS. HOWEVER, WE ALSO SUPPORT DEFICIT REDUCTION AT A FAIR AND EQUITABLE LEVEL FOR ALL BUDGET PROGRAMS. THE ADMINISTRATION PROPOSES BUDGET CUTS FOR TRANSIT THAT ARE MANY TIMES LARGER THAN TRANSIT'S SHARE OF THE TOTAL BUDGET.

THE CONCERNS FOR THE ADMINISTRATION BLOCK GRANT PROPOSAL IS THE ELIMINATION OF OPERATING ASSISTANCE FUNDS FOR URBAN AREAS OVER 200,000 POPULATION AND THE COMPETITIVE SITUATION THAT WILL RESULT BETWEEN TRANSIT AND HIGHWAY INTERESTS. THERE IS PRESENTLY A GENERAL COOPERATIVE EFFORT IN OUR AREA BETWEEN TRANSIT AND HIGHWAY AGENCIES. WE FEEL THE COMPETITION FOR FUNDING WILL RESULT IN A LESS COOPERATIVE EFFORT AND, FRANKLY, WE ARE CONCERNED WHETHER TRANSIT WILL RECEIVE ITS FAIR SHARE OF FUNDS. THE SENATE VERSION DOES NOT COMBINE BLOCK GRANT DOLLARS AND IS MORE ACCEPTABLE THAN THE ADMINISTRATION'S POSITION.

OUR NEXT CONCERN IS THE USE OF MASS TRANSIT TRUST FUND AND THE LEVELS OF ALLOCATION. WE STRONGLY RECOMMEND THAT ALLOCATIONS ARE AT THE TOTAL LEVEL OF REVENUE. THE ADMINISTRATION'S PROPOSED BUDGET LEVEL FOR FISCAL YEAR 1987 IS $1.222 BILLION, WHILE PROJECTED INCOME FROM THE GAS TAX IS AT $1.9 BILLION. MINNESOTA CONTRIBUTES ABOUT $20 MILLION PER YEAR TO THE FUND AND RECEIVES IN RETURN ONLY FROM $3 MILLION TO $6 MILLION PER YEAR IN GRANTS. WE RECOMMEND CONSIDERATION FOR A GUARANTEED RETURN TO THE STATE, SIMILAR IN CONCEPT TO THE HIGHWAY FUNDING PROGRAMS.

WE URGE THE MEMBERS OF THE SENATE TO VERY SERIOUSLY EVALUATE ANY PROPOSED BUDGETARY REDUCTIONS TO TRANSIT SERVICES THAT THEY ARE CONSIDERING THAT MIGHT NEGATIVELY IMPACT THIS VITAL ECONOMIC AND SOCIAL ELEMENT OF OUR URBAN AREAS.

IT IS OUR FEELING THAT ANY MAJOR REVISION OF THE URBAN MASS TRANSIT ACT BE DELAYED UNTIL AFTER COMPLETION OF THE FEDERAL HIGHWAY INTERSTATE PROGRAM SCHEDULED IN 1990. ANY REVISIONS IN THE ACT SHOULD BE LIMITED TO NECESSARY FINE TUNING.

SOME ISSUES WITH UMTA REGULATIONS THAT CONCERN US ARE PROMPT APPROVAL OF COMPLETED GRANT APPLICATIONS, LACK OF MANDATORY TIMELINES FOR UMTA'S RESPONSES TO GRANTS AND UMTA APPROVAL OF FORMULA GRANT FUNDS. GRANTS IN THE FORMULA PROGRAM ARE BASED ON PERSCRIBED PARAMETERS AND WITH STATE ASSURANCES SHOULD BE RELATIVELY AUTOMATIC. IN REALITY, THE TIMING OF RECEIPT OF FUNDS IS VERY UNPREDICTABLE. MANDATORY TIMELINES FOR UMTA'S REVIEW OF APPLICATION FOR FORMULA FUNDS SEEMS TO BE IN ORDER.

WE WERE ASKED BY STAFF TO RESPOND TO THE ABILITY OF LOCAL, STATE AND PRIVATE SECTOR TO INCREASE CONTRIBUTIONS FOR CAPITAL PROJECTS. IT IS OUR OPINION THAT, WITH THE SHIFT OF FINANCIAL RESPONSIBILITY FOR FORMER FEDERAL FUND PROGRAMS TO THE STATE AND LOCAL UNITS AND ELIMINATION OF REVENUE SHARING, IT IS NOT VERY REALISTIC TO EXPECT THAT LOCAL AND STATE GOVERNMENTS WILL BE ABLE TO ASSUME FURTHER RESPONSIBILITY FOR ANY LARGE CAPITAL INVESTMENTS FOR TRANSIT. OUR MOST LIKELY SOURCE IS THE PRIVATE SECTOR, WHICH WE ARE PURSUING AND WILL BE HIGHLY DEPENDENT ON THE ECONOMIC CLIMATE OF THE AREA.

STAFF HAS ALSO INDICATED THE SUBCOMMITTEE'S INTEREST IN OUR EFFORTS IN THE COMPETITIVE BIDDING PROCESS AND SUGGESTIONS FOR INCENTIVES TO ASSIST IN GREATER IMPLEMENTATION OF THE PROCESS. THE GREATEST NEED IS TO PROVIDE CAPITAL INVESTMENT DOLLARS FOR PRIVATE PROVIDERS AND ADDITIONAL FUNDS TO THE AGENCY FOR THE PURPOSE OF PLANNING AND IMPLEMENTING THIS MORE COMPLEX PROCESS. THE RTB IS PRESENTLY RESEARCHING THE PROCESS AND COSTS OF COMPETITIVE BIDDING WITH UMTA AND ITS CONSULTANT, THE URBAN INSTITUTE, IN PREPARATION FOR SUBMITTING AN IMPLEMENTATION GRANT PROPOSAL. OUR PROPOSAL IS A SIGNIFICANT ONE THAT COULD INCLUDE 15- TO 20-PERCENT OF OUR SERVICE.

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A CASE HISTORY OF COMPETITIVE BIDDING ACTIVITIES

THE RTB HAS BEGUN A MAJOR TRANSIT SERVICE NEEDS ASSESSMENT TO DETERMINE THE MISSING PIECES IN TERMS OF TRANSIT NEEDS. THIS STUDY IS NATIONALLY UNIQUE IN THAT IT APPROACHES TRANSIT NEEDS FROM THE POINT OF VIEW OF MARKET GROUPS RATHER THAN FROM A VIEW OF EQUIPMENT OR TECHNOLOGY. THE PRELIMINARY DATA FROM THE RECENTLY COMPLETED FIRST PHASE OF THE STUDY VERIFIES THAT THE TRANSIT NEEDS OF THE CENTRAL CITIES ARE STILL THE MOST SIGNIFICANT, BUT POPULATION DECLINES IN THESE AREAS AND INCREASING POPULATION AND EMPLOYMENT IN THE SUBURBAN AREAS ALL SUGGEST THAT OUR TRANSIT SYSTEM NEEDS TO BE RESTRUCTURED TO MEET THESE CHANGING NEEDS.

IN CONJUNCTION WITH THE TRANSIT SERVICE NEEDS ASSESSMENT, THE RTB IS PRESENTLY ESTABLISHING A PROCESS THAT WILL ENABLE US TO MONITOR THE SERVICE AND FINANCIAL PERFORMANCE OF ALL OPERATORS AND USE THAT INFORMATION TO MAKE DECISIONS ABOUT THE APPROPRIATE SERVICES TO DEPLOY, THE APPROPRIATE OPERATORS TO PROVIDE THE SERVICE AND THE APPROPRIATE AMOUNT OF FUNDS TO ALLOCATE FOR A PARTICULAR SERVICE--A PROCESS KEY TO INCREASING COMPETITIVE BIDDING OPPORTUNITIES.

IN MID-1985, THE RTB AND THE METROPOLITAN TRANSIT COMMISSION ESTABLISHED A JOINT COMMITTEE FOR THE PURPOSE OF DEVELOPING FINANCIAL AND SERVICE STANDARDS FOR THEIR REGULAR ROUTE BUS SERVICE. THE RTB PLANS TO EXPAND UPON THIS WORK TO DEVELOP SIMILAR STANDARDS FOR ALL TYPES OF TRANSIT SERVICE AND OPERATORS. THE INTERIM STANDARDS ADOPTED FOR THE MTC REGULAR ROUTE SERVICE APPLICATION IS DESCRIBED AS SUCH. THE RTB WOULD DEVELOP AND APPLY A CEILING SUBSIDY PER PASSENGER TO DETERMINE WHICH EXISTING ROUTES NEED TO BE EXAMINED FOR IMPROVEMENT OR ELIMINATION. SERVICE WOULD FIRST BE REVIEWED BY THE MTC TO DETERMINE IF MINOR SERVICE ADJUSTMENTS WOULD SUBSTANTIALLY IMPROVE THEIR ABILITY TO COMPLY WITH THE STANDARD. IF THE DECISION IS MADE TO ABANDON THE ROUTE OR TO INSTITUTE MAJOR RESTRUCTURING CHANGES, THE ROUTE WOULD BE SUBJECT TO A COMPETITIVE BIDDING PROCESS. NEW PROPOSED SERVICE, ONCE DETERMINED VIABLE, WOULD ALSO BE PUT OUT FOR COMPETITIVE BIDDING.

WE FEEL THAT THIS PROCESS ESTABLISHES A FAIR, EQUITABLE OPPORTUNITY TO ALLOW THE PUBLIC OPERATOR TO MAKE GOOD SERVICE DECISIONS AND CONTINUE TO PROVIDE THE SERVICES THEY CAN BEST (MORE COST-EFFECTIVELY) AND YET GIVE NEW OPERATORS THE OPPORTUNITY TO PARTICIPATE IN THE PROVISION OF PUBLIC TRANSIT SERVICE. AN

APPLICATION OF THIS INTERIM STANDARD IS NOW BEING INVESTIGATED FOR FIVE ROUTES THAT CURRENTLY EXCEED THE PER PASSENGER SUBSIDY STANDARD. RATHER THAN SIMPLY TERMINATING THE SERVICE BECAUSE IT IS TOO EXPENSIVE OR CONTINUE TO OPERATE THE SERVICE AS IS, GIVEN A HIGH SUBSIDY, THE RTB IS LOOKING AT COMPETITIVELY BIDDING THESE ROUTES TO PRIVATE PROVIDERS. THE ANALYSIS IS IN PROCESS AND WE HOPE BY MID-MAY TO ISSUE AN RFP.

WHAT IS REALLY UNKNOWN AT THIS POINT IS IF AND HOW PRIVATE OPERATORS WILL ACTUALLY RESPOND TO THE CALL FOR THEIR GREATER PARTICIPATION. WE WILL SOON BE INITIATING SOME FURTHER WORK TO IDENTIFY THE NUMBER AND CAPABILITIES OF ALTERNATE PROVIDERS, THE KINDS OF BARRIERS THAT MAY PREVENT THEM FROM PARTICIPATING AS A PROVIDER OF PUBLIC TRANSIT SERVICE, AND HOW WE CAN BEST ESTABLISH OUR COMPETITIVE BIDDING PROCESS. WE HOPE TO TEST SOME OF THESE CONCEPTS THROUGH A DEMONSTRATION PROJECT (POSSIBLY UMTA SPONSORSHIP) THAT WILL BE FOCUSED ON AN AREA WHERE TRANSIT IS BEING RESTRUCTURED AS A PART OF A TOTAL EFFORT TO INCREASE SHARED RIDE OPPORTUNITIES IN AN UPGRADED CORRIDOR (I-394). BUS ROUTES ARE BEING MODIFIED TO A TIMED-TRANSFER SYSTEM THAT WILL FOCUS ON THE CORRIDOR. THIS WILL GIVE US A CHANCE TO USE THE PROCESS DESCRIBED EARLIER AND ALSO A CHANCE TO CONSIDER THE CAPABILITIES OF THE EXISTING PUBLIC OPERATOR TO COMPETE WITH PRIVATE OPERATORS FOR PROVISION OF A MAJOR SEGMENT OF THE TRANSIT SYSTEM.

ACTUAL EXPERIENCE WITH PRIVATE OPERATORS IS FORTHCOMING, AS WELL, THROUGH ACTION TAKEN BY THE RTB TO INTRODUCE AN ELEMENT OF COMPETITION INTO ITS TRANSIT SERVICE FOR THE ELDERLY AND HANDICAPPED. CURRENTLY A HIGHLY STRUCTURED, CENTRALIZED SERVICE WILL SOON BECOME A MODIFIED VERSION OF A USER-SIDE SERVICE, ESSENTIALLY ALLOWING OPEN ENTRY OF PROVIDERS. WE EXPECT WE WILL SEE COST SAVINGS OF 15 TO 20-PERCENT THAT WILL ENABLE EXPANSION OF THE SERVICE INTO AREAS NOT CURRENTLY SERVED AND INCREASE RIDERSHIP OPPORTUNITIES WITH THE EXISTING SERVICE AREA. WE THINK THAT THE QUALITY OF THE RESTRUCTURED SERVICE WILL IMPROVE AND BE MORE RESPONSIVE TO USER'S NEEDS.

WE ARE ALSO ENCOURAGING USE OF THE PUBLIC FACILITIES, SUCH AS THE TIME-TRANSFER STATIONS ALONG I-394 AND OVERHAUL GARAGES TO BE SHARED WITH PRIVATE PROVIDERS. THIS HAS BROUGHT ADDITIONAL REVENUE TO THE PUBLIC OPERATIONS, AND PROVIDED A NECESSARY AND COSTLY SERVICE TO THE PRIVATE PROVIDER.

National
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[illegible]

STATEMENT OF

MS. BETTY ANN KANE

COUNCILMEMBER, WASHINGTON, D.C.

on behalf of

THE NATIONAL LEAGUE OF CITIES

on

REAUTHORIZATION OF THE URBAN MASS TRANSPORTATION ACT OF 196

before the

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

April 15, 1986

Mr. Chairman, members of the Subcommittee: I am Betty Ann Kane, Councilmember from Washington, D.C. and a member of the National League of Cities Transportation and Communications Steering Committee. I am here today to testify on behalf of NLC and the 15,000 cities we represent on reauthorization of the Urban Mass Transportation Act of 1964.

Our recommendations for an effective federal role in providing assistance to public transportation are based on two presumptions: that public transportation is an essential public service whose primary objective is to provide mobility for all people, in all places, regardless of ability to pay; and, that public transportation contributes significantly to the viability of the nation's cities, and its provision is therefore in the national interest.

Each level of government, as well as the private sector, has an appropriate role in ensuring the availability of adequate public transit.

Funding Level

Given our belief that adequate public transit is in the national interest, and recognizing that fare increases, productivity improvements, privatization and increased non-federal contributions will not generate enough revenues to meet transit needs, we support, at a minimum, freezing the federal financial committment at its current level. That commitment should not be reduced or eliminated by turning transit programs back to the states, by merging transit programs with the federal-aid urban system or other highway programs, by eliminating funding eligibility for new fixed rail starts, or by phasing out operating assistance. Given these criteria, we oppose the Administration's Ground Transportation Block Grant. Without a continued and adequate federal financial commitment, the viability of the nation's public transportation systems will be threatened.

We also believe it is necessary for state and local governments to increase their support for transit and to move toward more stable and reliable sources of funding.

To encourage greater local participation, we support the inclusion of a measurement of non-federal revenue contributions in both the formula and discretionary apportionments. This will encourage state legislatures to permit local governments to raise funds for transit purposes at the local level. These measurements must, however, take into account a local government's ability to tax itself.

Privatization

The League of Cities supports private sector participation in providing transit and para-transit services where such service is complimentary to and in partnership with the existing public transportation service. Such decisions however, must be made at the local level.

We are, understandably, wary of any federally-imposed mandates particularly with respect to involvement with the private sector, and specifically oppose UMTA's recently promulgated guidelines. We believe that privatization done in accordance with these guidelines represents an unwarranted intrusion into local decision-making.

NLC takes issue with UMTA's assumption that the most important objective of public transportation is to reduce costs. While cost reductions could and should be made wherever possible, providing service at least cost should not be the sole criterion guiding service decisions, nor should cost savings be achieved at the expense of service quality. Transit is not a business. It is an essential public service whose purpose is to service transit dependents and others in an affordable, safe, reliable and convenient manner. This may necessitate the provision of some transit service that is simply not cost-effective.

Privatization seems to have become something of a panacea, designed to solve many of the problems related to deficit reduction. If I may quote from a recent article by Robert Kuttner in the March 10th issue of Business Week,

> "...maintaining a political democracy in a private economy requires a set of compromises between the two incompatible principles of political equality--one-person-one-vote--and economic inequality--one-dollar-one-vote."
>
> "Once society departs from the principle of one-dollar-one-vote, things get messy. If people qualify as citizens for services that they could not afford as consumers, then somebody has to decide who gets what."
>
> "Similarly, the appeals of contracting out government become less apparent when one takes a closer look. In theory, contracting out government services brings to the public realm all the virtues of the private market--flexibility, innovation and competition. In practice, however, contracting out government begs the ancient political question: Quis custodiet ipsos custodes? (Who will watch the watchers?)
>
> "The gross inefficiency of Pentagon contracting --probably the most 'privatized' portion of government--is hardly an advertisement for the superiority of privatization. In local government there is evidence that when too many public services are contracted out, there are just not enough public

> officials and too little public-sector esprit de corps to keep the process honest. ...Beyond a certain point, government-by-contract couples the inefficiencies of the public sector with the less savory aspects of the private sector."

We also see some inherent contradictions in the federal government's approach to privatization. One the one hand we are encouraged to involve the private sector in assisting with providing public services and on the other hand are penalized by losing access to tax exempt financing when public purposes become intermingled with private activities. Similarly, revisions of the tax code, rather than enhancing, or at least maintaining, incentives for private sector involvement in public activities, more often than not, move in the opposite direction, creating disincentives for public/private partnerships.

Federally imposed privatization, in our opinion, would undermine the public-serving nature of transit. If private providers are allowed to compete with public providers, we believe private providers will take over the most lucrative routes, leaving the unprofitable routes to the public transit authorities. The cost of providing service on the unprofitable routes will rise (since these routes will be no longer be cross-subsidized by the profitable service), and ever-increasing levels of subsidies will be necessary.

And finally, regardless of one's opinion of Section 13(c) requirements, we believe the Administration's privatization proposal puts cities in the untenable position of "heads, you win; tails, we lose." On the one hand, many current labor contracts--contracts which are the products of labor/

management negotiations required by 13(c)--prohibit a transit operator from worsening the condition of existing transit employees by contracting out services. Under current contracts, therefore, the operator would be in non-compliance with the privatization guidelines and ineligible to receive federal assistance. On the other hand, if the transit operator does subcontract for transit services presently provided by union employees, the transit authority would be in violation of the Section 13(c) agreement and could be subject to fines, penalties, lawsuits and loss of UMTA grant funds.

The Administration assumes that existing labor contracts can be unilaterally abrogated or easily renegotiated and that the federal privatization guidance supersedes or pre-empts federal, state and local laws, policies, and contract obligations. Neither proposition is valid. Labor contracts are like any other contractual obligation and cannot be unilaterally broken without due cause. Further, until the courts have clearly determined that the federal statutory language and policy guidance is pre-emptive, state and local labor laws and contracts must be upheld.

NLC believes that private sector inititatives should be encouraged through incentive grants to recipients from Section 3 to coordinate more effectively public transportation with the private sector. This can be accomplished if recipients are encouraged to establish processes for allowing early input into the decision-making process; to inventory private sector services in local jurisdictions; to analyze the efficiency of public transit services to see where the private sector can participate; to develop and implement complimentary private sector services and private sector investment strategies.

Structural Changes to the Transit Program

We believe that the present transit program is basically sound but some structural changes are needed. For one, we are concerned that the separate authorizations for the discretionary and formula programs create two separate transit constituencies which compete rather than compliment each other. Consequently, we believe that the two parts of the program should be merged. One approach for achieving this objective is a unitary authorization. Other approaches have merit and should also be considered.

A second problem area concerns the balance between the Section 3 and Section 9 programs. As funds from interest income increase the size of the mass transit account of the highway trust fund, and as general revenue funding for the Section 9 program continually decreases, the disparities between the discretionary program targeted to the few with large transit needs and the formula program available to all transit authorities will be exacerbated. We believe that unless a major portion of transit funding goes to all areas, the total beneficiaries for transit will diminish to just a few, enhancing the likelihood of further and further reductions in transit assistance.

There are at least two potential solutions to this problem. If Congress enacts a unitary authorization then a major portion of the funding--for example, 75 percent--will be allocated on a formula basis, with the remaining funds allocated on a discretionary basis for capital assistance. Any increases, or decreases, in federal funding for transit should occur in such a way as to maintain this ratio between the formula and discretionary portions of the program. Developing this type of program would also address any perceived inequities to small and rural states by guaranteeing access to and assuring them a formula share of a set percentage of the penny gas tax.

If a unitary authorization is not adopted, the transit program could be brought into better balance by allocating any increase in Section 3 funds (i.e., increased revenues as a result of declining gasoline prices, interest accumulated in the mass transit account) according to the Section 9 formula.

We firmly believe that any increases in funding for the Section 3 discretionary grants program cannot be at the expense of funding for the Section 9 formula grants program.

Discretionary Assistance

We also believe that a number of changes should be made to improve the discretionary portion of the transit program.

To allocate scarce discretionary assistance equitably and to ensure that priority projects are built, we recommend that Congress identify specific criteria for evaluating proposed major capital investments and that the Secretary establish a process for evaluating such investements. The criteria should include, but not be limited to such factors as: projected patronage, population and population density of the area serviced by the proposed capital investments, cost-effectiveness of the proposal, relationship of the proposal to transit needs, and local financial commitment to the project commensurate with local ability to pay.

We support multi-year contracting but recommend limiting annual obligations to preclude one or two major projects from using all of one year's obligation.

NLC opposes earmarking of discretionary funds into discrete categories with accompanying minimum funding levels for each category. We believe this undermines the discretionary nature and flexibility of the program and limits the ability of the program to respond to changes in transit needs.

Needless to add, we also oppose a transit ICE as well as any "fair share" amendments to discretionary transit funding. We believe, however, that a fair share type of amendment will be proposed at some point in the process. We would support a fair share amendment only if the allocation is solely for transit purposes.

Formula Assistance

NLC continues to support the current formula grants program, with the federal share of capital projects remaining at 80 percent and the federal share of operating assistance remaining at 50 percent. We also believe there should be incentives in the matching ratios to reward improvements in transit productivity and encourage maintenance of existing capital facilities and rolling stock. A similar approach should be developed to promote rehabilitation of existing fixed rail systems.

We are also strongly committed to the operating assistance program and we believe the federal government has an obligation to continue to provide assistance for the operations of transit systems. According to figures from the American Association of State Highway and Transportation Officials, federal mandates increase the cost of operating a transit system by 35 percent. And this figure was calculated before the Fair Labor Standards Act was mandatorily applicable to state and local governments. Without operating assistance, many systems, particularly in small urban and rural areas, will have to substantially reduce or cease service altogether.

Congress needs to consider what the point of capital assistance is, if indeed the funds to operate the equipment are not there.

We are also concerned about the impression of a significantly growing unobligated balance of operating and capital formula funding.

In some measure, at least as far as an unobligated balance in operating assistance is concerned, we know the problem is vastly overstated. For example, it was alleged that the Dallas/Ft. Worth area had an unobligated operating assistance balance in excess of $7.1 million or 69 percent of the fiscal 1985 allocation. In reality, of the $10.5 million going to the area. Ft. Worth and two surrounding communities used every penny of their $3.5 million share to operate their public transit systems. Dallas, on the other hand, has never used any portion of their assistance for other than capital expenditures. And, as you well know, the law permits a transit authority the option to use federal funds for operating assistance.

At the same time, the law permits capital assistance funds to be held by transit authorities for up to four years to facilitate major capital investements in transit.

If indeed there is a carry-over problem we suggest that you consider several potential solutions:

-- Establish a time limit for use of funds in urbanized areas that provide no transit services. We believe such areas should be required to certify that they have or are developing a transit plan within two years of receiving an allocation. If an area failed to so certify, the governor would then be required to re-allocate the funds to other areas within the state that do provide transit services.

-- For areas that do provide public transit, provide for reallocation of their funds as is provided for under current law if these funds remain uncommitted at the end of four years.

-- Adjust the allocation formula to target funds to areas of need.

-- Provide increased flexibility in the use of funds by re-establishing the 3 for 2 trade-in concept.

Labor Protections

While NLC supports improvements and clarification of the 13(c) requirements, we do not support eliminating these provisions.

We believe Congress should clarify the intent of Section 13(c) as it applies to both urban and rural transportation programs. Specifically, Congress should determine whether the requirements apply to new employees, all potentially affected employees or only those employed by the grantee. Additionally, Congress should clarify whether the 13(c) requirements apply in states which expressly prohibit public employee collective bargaining and whether services contracted with outside firms are allowable under 13(c). Congress should also clarify whether 13(c) requirements apply to paratransit, private sector transportation and intercity bus services.

In December, the League of Cities membership voted to call for repeal of Davis-Bacon. I believe, in part, the vote reflected our membership's frustration with implementation of the program.

The method for calculating the prevailing wage, particularly in suburban and rural areas, was recently revised with significant input by the League. The revised regulations substantially reflected NLC's policy at that time and we were pleased with the new rules. But, as you know, there was a long lag time between the resolution of the court suit challenging the revisions and implementation of the regulations.

This, coupled with DOL's current attempts to revise--adversely, from our perspective--the regulations has led to our support for repeal of the law.

On July 31, 1985 the Department of Labor made a ruling applying the Davis-Bacon prevailing wage rates to all phases of economic development projects. We believe that this ruling is in violation of Congressional intent.

The essence of the Labor Department ruling is that if federal funds such as HUD Community Development Block Grants (CDBG) or Urban Development Action Grants (UDAG) are used to acquire and/or prepare a site for development, then the construction of the building on the site is subject to Davis-Bacon wage rates even if the building construction is totally privately financed. The Labor Department defines the use of these federal funds as "integrally and proximately related" to the construction of the building. Based on the legislative history of the CDBG and UDAG programs and the predecessor Urban Renewal Program, we do not believe that Congress or this Committee, which has jurisdiction over these HUD programs, intended that Davis-Bacon wage rates apply in these circumstances.

In addition, the Labor Department ruling means that cities must now use Davis-Bacon wage rates for privately financed new developments on land cleared several years ago with CDBG funds. At the time the land was cleared, no intended use or developer was designated. Since Davis-Bacon may significantly increase development costs and make many projects financially infeasible, we feel it is extremely inappropriate and does violence to Congressional intent that Davis-Bacon apply when no federal funds are used for the building construction.

HUD General Counsel, John Knapp has corresponded with Deputy Undersecretary for Employment Standards, Susan R. Meisinger requesting a reconsideration of the DOL ruling. This request was made on December 19, 1985 and no decision has been made by DOL that they will grant the reconsideration. Any assistance this committee can provide in resolving this issue would be most helpful.

Mr. Chairman, thank you for the opportunity to present our views. I would be pleased to answer any questions.

Senator HECHT. Thank you very much.
Mr. Thompson.

STATEMENT OF ROBERT THOMPSON, CHAIRMAN, BOARD OF COMMISSIONERS, CHESTER COUNTY, PA; REPRESENTING THE NATIONAL ASSOCIATION OF COUNTIES

Mr. THOMPSON. Thank you very much, Mr. Chairman.

First, I want to thank you for the opportunity to be here today and, second, to invite you, Senator, to the NACo national conference which is being held in Clarke County, NV, in the middle of July. We hope to send you a formal invitation and see you then.

Senator HECHT. Thank you. I've heard of that area before. What is that date?

Mr. THOMPSON. July 12 to 15.

Senator HECHT. We will be in session, but if there's any way I could come out for a day or so I will sure make every attempt to come out.

Mr. THOMPSON. We would appreciate having you.

Senator HECHT. It's a wonderful area. Do you want me to take some of your time to talk about southern Nevada? [Laughter.]

Thank you very much for your invitation and if there's any way I can be there I will be there.

Mr. THOMPSON. Thank you very much.

As you know, many NACo member counties operate their own transit systems. I happen to be a member of the NACo committee on mass transit and railroads and have been active in their activities. We've been looking very closely at the latest recommendations by the administration and by the Congress with regard to mass transit.

NACo's policy is that mass transit is a national as well as a local priority and should be continued as such. I have given you some formal testimony. I'd like to just sum up what I said and give you some idea where we are in Chester County.

HISTORY OF SEPTA

Public transportation in Chester County, PA, is provided by the Southeast Pennsylvania Transportation Authority [SEPTA]. It's the fourth largest authority in the country. We have approximately 1 million riders who use the system on an average weekday and there's been a steady increase in ridership since 1981.

We operate all forms of mass transportation, buses, trolleys, subways, subway elevated, and trackless trolleys.

We have a budget of about $490 million for operating and an additional $192 million for capital expenditures.

In Chester County we have 325,000 population but only about 4,500 of that population uses the system to commute to and from the city. The annual appropriation from Chester County is about $1 million of SEPTA's $84 million budget.

Because of its concern for mass transit, NACo has paid close attention to the development of the administration's block grant proposal and its 1987 budget. We've heard from the Administrator on a number of occasions and while we as local officials like flexible Federal programs and certainly applaud sections of the proposals which eliminate Federal regulations, we see serious problems with the administration's proposals.

Highway and transit are distinct modes of transportation and require their own separate sources of funding. Under this proposal, transit systems would be forced to compete with highway interest and, as a result, historically when that has happened there's been an underfunding of mass transportation.

From a transit perspective, the first problem with the proposal is that it doesn't give us complete flexibility. It forbids us from using block grants for transit operating purposes. The retention of Federal operating assistance has always been a high priority for NACo and continues to be.

The second problem is that there will not be apportionments attributable to areas under 200,000 in population as there are in the present program. All funds would go to the State which could either keep the money or use it as it chooses. We don't like this idea.

SPENDING REDUCED 65 PERCENT

Third, it reduces—and this is probably one of the most important ones—it reduces the transportation spending of UMTA by 65 percent. In SEPTA's case where we now receive capital and operating funds of $172 million, under the administration's proposal that $172 million would shrink to $52 million a year for capital only. And we have, as I said, a budget of $192 million for capital.

If a block grant is of interest to the members of the subcommittee, we would like to give more attention to the one funded at least at the current funding levels that appropriates money directly to local governments.

We are pleased that the Senate committee assumes that highway and mass transit programs should remain separate and we would hope for at least a freeze in the section 3 and section 9 capital. A 20-percent cut for section 9 would create problems and we hope that you would support any amendments that would be offered to restore the cut.

We have strong feelings that sections 3, 9, and 18 should be continued.

POSSIBILITY OF QUOTAS

We are also very much concerned in the area of privatization because what we're seeing with privatization is the possibility of quotas. Quotas haven't worked to right wrongs in the past. We don't see where quotas are going to work to right public transportation wrongs in the future.

SEPTA has been very successful in its privatization efforts in the past. Those have included the entire operation of its paratransit division, maintenance, and repairs to the regional rail stations, and probably the largest single moneysaver was the contracting out of ticket sales at the regional rail division of SEPTA. As a result, we have made strides in cutting costs through privatization.

What we can't do is look at mass transit as county commissioners particularly in a vacuum, especially given the other trends that are happening here in Washington. We as county commissioners are seeing the dissolution of general revenue sharing. That's the equivalent of 1.6 mils of real estate tax in Chester County and Chester County can only rely on real estate taxes for its funding. We see a reduction in Community Development Block Grants, so we have to look at mass transit in our overall ability to provide the needed services for our residents that may now be provided at the State level and will have to be taken over by the local level.

I will stop at this point.

Senator HECHT. If you have any more, summarize. Your time is up, but please feel free to summarize.

Mr. THOMPSON. OK. Actually, we're between a rock and a hard place. We're seeing increases in the needs for services and in order to increase the services we either have to raise the revenues which result in hardships on the public or raise taxes to fund them. At one point on the board of directors of SEPTA on which I serve we suggested that we go chapter XI or the equivalent. We found out even that wasn't possible because the counties would have to underwrite the cost and all the liabilities of going out of business. So we're between a rock and a hard place.

We would hope that you freeze what you have now. To eliminate operating expenses and to gut the capital program as has been proposed will devastate the southeastern portion of Pennsylvania and its mass transportation system.

Thank you.

[The complete prepared statement follows:]

NATIONAL
ASSOCIATION
of
COUNTIES

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STATEMENT OF

THE HONORABLE ROBERT THOMPSON
CHAIRMAN, BOARD OF COMMISSIONERS,
CHESTER COUNTY, PENNSYLVANIA

BEFORE THE

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE
SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

ON BEHALF OF

NATIONAL ASSOCIATION OF COUNTIES

APRIL 15, 1986

WASHINGTON, D.C.

MR. CHAIRMAN, I AM ROBERT THOMPSON, CHAIRMAN OF THE CHESTER COUNTY, PENNSYLVANIA BOARD OF COMMISSIONERS AND VICE CHAIR OF THE MASS TRANSIT AND RAILROAD SUBCOMMITTEE OF THE NATIONAL ASSOCIATION OF COUNTIES (NACo)*. I APPRECIATE THE OPPORTUNITY TO TESTIFY TODAY BEFORE THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS OF THE SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS.

MANY NACo MEMBER COUNTIES OPERATE THEIR OWN TRANSIT SYSTEMS, OR, AS IS THE CASE WITH CHESTER COUNTY, ARE MEMBERS OF TRANSIT AUTHORITIES WHICH OPERATE A MULTI-JURISDICTIONAL SYSTEM. COUNTY OFFICIALS BELIEVE THAT TRANSPORTATION IS A VITAL COMPONENT IN ANY COMMUNITY'S ABILITY TO GROW, TO BE VIABLE ECONOMICALLY, AND BE EFFICIENT IN COMMERCE, COMMUTING AND DAILY LIVING. WITH POPULATION GROWTH, INCREASED DENSITY IN URBAN AND SUBURBAN AREAS, AND THE NEED TO KEEP OUR ENVIRONMENT CLEAN, MASS TRANSPORTATION IS AN INCREASINGLY IMPORTANT ELEMENT IN OUR NATION'S OVERALL TRANSPORTATION SYSTEM. NACo CONTENDS THAT MASS TRANSPORTATION IS A NATIONAL AS WELL AS A STATE AND LOCAL PRIORITY. MASS TRANSPORTATION PROMOTES ENERGY SAVINGS, CLEANER ENVIRONMENTS, LESS CONGESTION, ECONOMIC GROWTH AND EFFICIENCY, AND REASONABLE TRANSPORTATION ACCESS FOR ALL CITIZENS. THESE SHOULD BE NATIONAL GOALS AND PRIORITIES.

***THE NATIONAL ASSOCIATION OF COUNTIES IS THE ONLY NATIONAL ORGANIZATION REPRESENTING COUNTY GOVERNMENT IN THE UNITED STATES. THROUGH ITS MEMBERSHIP, URBAN, SUBURBAN AND RURAL COUNTIES JOIN TOGETHER TO BUILD EFFECTIVE, RESPONSIVE COUNTY GOVERNMENT. THE GOALS OF THE ORGANIZATION ARE TO: IMPROVE COUNTY GOVERNMENT; SERVE AS THE NATIONAL SPOKESMAN FOR COUNTY GOVERNMENT; ACT AS A LIAISON BETWEEN THE NATION'S COUNTIES AND OTHER LEVELS OF GOVERNMENT; ACHIEVE PUBLIC UNDERSTANDING OF THE ROLE OF COUNTIES IN THE FEDERAL SYSTEM.**

CHESTER COUNTY WAS ONE OF THE THREE ORIGINAL COUNTIES FOUNDED BY WILLIAM PENN IN 1682. LOCATED 20 MILES WEST OF PHILADELPHIA, IT HAS A POPULATION OF APPROXIMATELY 325,000. UNLIKE OTHER COUNTIES IN THE SOUTHEASTERN PORTION OF PENNSYLVANIA AND THE CITY OF PHILADELPHIA, CHESTER COUNTY EXPERIENCED MODERATE GROWTH IN THE PERIOD FROM 1970 TO 1980, WHILE THE OTHER COUNTIES EITHER REMAINED AT THE SAME POPULATION LEVEL OR IN THE CASE OF DELAWARE COUNTY AND THE CITY OF PHILADELPHIA, DECLINED IN POPULATION.

THE ECONOMY OF CHESTER COUNTY IS BOTH DIVERSE AND STRONG. U.S. ROUTE 202 TRAVERSES THE EASTERN PORTION OF CHESTER COUNTY PROVIDING A HIGH-TECH CORRIDOR FOR THE REGION. ON THE OTHER HAND, THERE ARE POCKETS OF DEPRESSED AREAS, PARTICULARLY THOSE HISTORICALLY ASSOCIATED WITH THE STEEL INDUSTRY.

WHILE HIGH-TECH AND SERVICE INDUSTRIES HAVE REPLACED, IN SOME AREAS, TRADITIONAL SMOKESTACK AND MANUFACTURING OPERATIONS, AGRICULTURE CONTINUES TO BE A STRONG INDUSTRY. CHESTER COUNTY RANKS SECOND IN AGRICULTURAL PRODUCTION IN PENNSYLVANIA AND FIFTIETH AMONG ALL COUNTIES IN THE UNITED STATES.

LIKE ALL SECOND THROUGH EIGHTH CLASS COUNTIES IN THE COMMONWEALTH OF PENNSYLVANIA, CHESTER COUNTY MUST RELY NEARLY EXCLUSIVELY ON REAL ESTATE TAXES AS ITS PRIMARY SOURCE OF REVENUE TO PROVIDE SERVICES. HEREIN LIES A SERIOUS PROBLEM, PARTICULARLY WHEN THE FEDERAL GOVERNMENT DETERMINES IT WILL NO LONGER FURNISH FUNDS FOR SERVICES THAT IT HAS HISTORICALLY FUNDED.

PUBLIC TRANSPORTATION FOR CHESTER COUNTY IS PROVIDED BY THE SOUTHEAST PENNSYLVANIA TRANSPORTATION AUTHORITY (SEPTA). CHESTER COUNTY, ALONG WITH THE COUNTIES OF BUCKS, DELAWARE, AND MONTGOMERY AND THE CITY OF PHILADELPHIA, EACH NAME TWO MEMBERS OF AN ELEVEN MEMBER BOARD OF DIRECTORS OF SEPTA. THE ELEVENTH MEMBER IS APPOINTED BY THE GOVERNOR. I AM ONE OF CHESTER COUNTY'S REPRESENTATIVES ON SEPTA AND SERVE AS VICE CHAIR OF THE AUTHORITY.

SEPTA OPERATES PUBLIC TRANSPORATION SERVICES IN ALL FIVE COUNTIES OF THE REGION. SEPTA IS COMPRISED OF THREE DIVISIONS: THE CITY TRANSIT DIVISION, THE SUBURBAN TRANSIT DIVISION AND THE REGIONAL RAIL DIVISION.

APPROXIMATELY ONE MILLION RIDES ARE TAKEN ON AN AVERAGE WEEKDAY: ABOUT 800,000 ON CITY TRANSIT; APPROACHING 100,000 ON SUBURBAN TRANSIT (RED ARROW AND FRONTIER SERVICES); AND MORE THAN 90,000 ON REGIONAL RAIL. IN 1985, A GRAND TOTAL OF ALMOST 263 MILLION PASSENGERS WERE CARRIED. THERE HAS BEEN A STEADY INCREASE IN TOTAL RIDERSHIP SINCE A LOW OF 238 MILLION IN 1981 (1981 RIDERSHIP WAS AFFECTED BY A 19 DAY CITY TRANSIT STRIKE, AND 1983 RIDERSHIP BY A 108 DAY REGIONAL RAIL STRIKE). ANNUAL VEHICLE MILES HAVE ALSO INCREASED FROM A LOW OF 63.7 MILLION MILES IN 1981 TO 72.5 MILLION MILES IN 1985.

SEPTA'S VARIOUS FLEETS INCLUDE: APPROXIMATELY 1,500 BUSES, MORE THAN 250 TROLLEYS, 110 TRACKLESS TROLLEYS, 250 MARKET-FRANKFORD LINE CARS, 125 BROAD STREET SUBWAY CARS, AND SOME 330 REGIONAL RAIL CARS.

WITH THE EXCEPTION OF THE MARKET-FRANKFORD AND REGIONAL FLEETS, ALL OTHER VEHICLES HAVE EITHER BEEN PURCHASED NEW OR REBUILT SINCE 1979 (NEARLY 300 OLDER BUSES AND 112 TROLLEYS HAVE BEEN REBUILT). THE TRACKLESS TROLLEY FLEET WENT INTO SERVICE IN 1979, NEW BUSES HAVE BEEN PURCHASED EVERY YEAR SINCE 1980, THE BROAD STREET SUBWAY CARS REPLACED VEHICLES DATING BACK TO 1928 IN 1982, AND 141 NEW STREETCARS WERE IN SERVICE BY EARLY 1983.

SEPTA'S CURRENT OPERATING BUDGET (FISCAL YEAR 1986) IS $490.3 MILLION AND THE CAPITAL BUDGET (PRIMARY) IS $192.6 MILLION.

OF EACH REVENUE DOLLAR, THE PASSENGER CONTRIBUTES 51.7 CENTS, STATE SUBSIDIES EQUAL 25.5 CENTS, FEDERAL SUBSIDIES ARE SEVEN CENTS, AND LOCAL SUBSIDIES - APPROPRIATIONS FROM THE CITY OF PHILADELPHIA, AND THE FOUR COUNTIES - ACCOUNT FOR 10.9 CENTS. OTHER REVENUES TOTAL 4.9 CENTS. CURRENTLY, CHESTER COUNTY'S ANNUAL APPROPRIATION TO THE OPERATING DEFICIT IS $1 MILLION ANNUALLY.

OF CHESTER COUNTY'S 325,000 CITIZENS, 4,500 ARE REGULAR DAILY RIDERS ON THE SYSTEM. OF THOSE 4,500 RIDERS, APPROXIMATELY 3,500 COMMUTE DAILY TO AND FROM PHILADELPHIA FROM CHESTER COUNTY ON THE AUTHORITY'S REGIONAL RAIL DIVISION. THE REMAINDER ARE SERVED BY THREE BUS LINES LINKING THE SUBURBS WITH PHILADELPHIA, AND PROVIDING RADIAL TRANSPORTATION SERVICES TO POINTS WITHIN THE COUNTY.

I ALSO THOUGHT THE SUBCOMMITTEE WOULD BE INTERESTED IN THE PERSPECITVE OF A COUNTY WHICH IS INVOLVED IN A SMALLER TRANSIT SYSTEM. CARL YOUNG, THE COUNTY EXECUTIVE OF BROOME COUNTY, NEW YORK, (WHO ALSO SERVES AS CHAIRMAN OF THE TRANSPORTATION STEERING COMMITTEE OF THE NATIONAL ASSOCIATION OF COUNTIES), HAS RESPONSIBILITY FOR TRANSIT SERVICES IN HIS COMMUNITY. THE BROOME COUNTY DEPARTMENT OF TRANSPORTATION PROVIDES FIXED ROUTE SERVICE WITH 40 BUSES, DIAL-A-RIDE SERVICE FOR THE HANDICAPPED AND THE ELDERLY AND RURAL TRANSPORTATION SERVICES, THE COMBINATION OF WHICH PROVIDES MORE THAT 3 1/2 MILLION PASSENGER TRIPS ANNUALLY. BROOME COUNTY OPERATES SERVICE WITH THE ASSISTANCE OF SECTION 9 AND SECTION 18 FUNDS, PLANS PROJECTS WITH FUNDS FROM SECTION 9, SECTION 8 AND SECTION 6 FUNDS AND HAS USED SECTION 3 FOR MAJOR CONSTRUCTION.

BECAUSE OF THE CONCERN FOR MASS TRANSIT, NACO HAS PAID CLOSE ATTENTION TO THE DEVELOPMENT OF THE ADMINISTRATION'S BLOCK GRANT PROPOSAL AND FISCAL YEAR 1987 BUDGET. UMTA ADMINISTRATOR STANLEY SPOKE BEFORE THE NACO TRANSPORTATION STEERING COMMITTEE AT ITS NOVEMBER, 1985 MEETING AND MEMBERS OF HIS STAFF SPOKE

AT NACO'S LEGISLATIVE CONFERENCE IN MARCH. BASED ON WHAT WE HAVE HEARD AND SEEN AND WHAT WE KNOW ABOUT HOW TRANSIT SYSTEMS AND COUNTY GOVERNMENTS OPERATE, WE FEEL THE BLOCK GRANT APPROACH CONTAINED IN THE ADMINISTRATION'S LEGISLATION WOULD NOT SERVE COUNTIES WELL. WHILE, AS LOCAL OFFICIALS WE LIKE FLEXIBLE FEDERAL PROGRAMS, AND CERTAINLY APPLAUD SECTIONS OF THE PROPOSAL WHICH ELIMINATE CERTAIN FEDERAL REGULATIONS, WE SEE SERIOUS PROBLEMS WITH THE ADMINISTRATION'S PROPOSAL. HIGHWAYS AND TRANSIT ARE DISTINCT MODES OF TRANSPORTATION AND REQUIRE THEIR OWN SEPARATE SOURCES OF FUNDING. UNDER THIS PROPOSAL, TRANSIT SYSTEMS WOULD BE FORCED TO COMPETE WITH HIGHWAY INTERESTS FOR FUNDS. HISTORICALLY WE HAVE SEEN THAT THIS KIND OF COMPETITION HAS RESULTED IN THE UNDER-FUNDING OF MASS TRANSIT. FROM A TRANSIT PERSPECTIVE, THE FIRST PROBLEM IS THAT THE PROPOSAL DOES NOT GIVE US COMPLETE FLEXIBILITY. IT FORBIDS US FROM USING THE BLOCK GRANT FOR TRANSIT OPERATING PURPOSES. THE RETENTION OF FEDERAL OPERATING ASSISTANCE HAS ALWAYS BEEN A HIGH PRIORITY FOR NACO. THE SECOND PROBLEM IS THAT THERE WOULD BE NO APPORTIONMENTS ATTRIBUTABLE TO AREAS UNDER 200,000 POPULATION, AS THERE IS IN THE PRESENT PROGRAM. ALL FUNDS WOULD GO TO THE STATE WHICH COULD EITHER KEEP THE MONEY OR APPORTION IT AS THEY CHOSE. COUNTIES FEEL THAT, IN SOME CASES, THE FUNDS WOULD NOT GET TO THEIR SYSTEMS. THIRD, THE UMTA PROPOSAL REDUCES MASS TRANSIT'S CONTRIBUTION TO TRANSPORTATION SPENDING BY 65%. THIS CUT IS SIMPLY UNACCEPTABLE AND MAKES IT VERY DIFFICULT FOR NACO MEMBERS TO SERIOUSLY CONSIDER THE ADMINISTRATION'S PROPOSAL.

IN THE CASE OF SEPTA, THE FY86 APPROPRIATIONS FROM THE FEDERAL GOVERNMENT FOR BOTH CAPITAL AND OPERATING PURPOSES IS

APPROXIMATELY $172 MILLION. UNDER THE ADMINISTRATION'S PROPOSAL, THAT $172 MILLION WOULD SHRINK TO $52 MILLION. THAT $52 MILLION COULD ONLY BE USED FOR CAPITAL PROJECTS, SINCE OPERATING FUNDS WOULD HAVE BEEN ELIMINATED. SEPTA'S CAPITAL NEEDS ALONE ON ITS REGIONAL RAIL DIVISION IN THE NEXT FIVE YEARS -- AS SUBSTANTIATED IN A REPORT ISSUED JUST ABOUT A YEAR AGO BY FORMER SECRETARY OF TRANSPORTATION WILLIAM COLEMAN, --ARE MORE THAN $1 BILLION (that's with a B).

A RECENT BRIDGE INVENTORY POINTED OUT THE NEED FOR THE AUTHORITY TO SPEND AT LEAST $80 MILLION OVER THE NEXT TWO YEARS TO BRING SUBSTANDARD RAILROAD BRIDGES INTO SAFE CONDITION.

SEPTA'S PRIMARY CAPITAL BUDGET FOR FISCAL YEAR 1986 INCLUDES PROJECTS TOTALING $192,621,610. THIS CALLS FOR APPROXIMATELY $144 MILLION OF FEDERAL MONEY, WITH THE REST BEING PROVIDED BY MATCHES FROM STATE AND LOCAL GOVERNMENTS. REDUCING THAT $144 MILLION TO $52 MILLION WOULD SADDLE LOCAL GOVERNMENT OFFICIALS -- INCLUDING CHESTER COUNTY -- WITH A SHORTFALL OF APPROXIMATELY $92 MILLION IN THE NEXT YEAR ALONE.

IF A BLOCK GRANT IS ATTRACTIVE TO MEMBERS OF THE SUBCOMMITTEE, NACO WOULD GIVE MORE ATTENTION TO ONE FUNDED AT LEAST AT CURRENT FUNDING LEVELS, THAT APPORTIONS FUNDS DIRECTLY TO LOCAL GOVERNMENTS, AND THAT WOULD ALLOW LOCAL GOVERNMENT TO SPEND THE FEDERAL FUNDS WHERE IT FELT APPROPRIATE, EITHER IN CAPITAL OR OPERATING. THIS APPROACH WOULD CERTAINLY RECEIVE MORE CONSIDERATION BY OUR MEMBERS.

WE ARE PLEASED THAT THE SENATE BUDGET COMMITTEE ASSUMES THAT THE HIGHWAY AND MASS-TRANSIT PROGRAMS WILL REMAIN SEPARATE AND THAT THE RESOLUTION ASSUMES A FREEZE FOR SECTION 3 AND SECTION 9 CAPITAL. WE ARE DISAPPOINTED THAT THE RESOLUTION ASSUMES A 20% CUT FOR SECTION 9 OPERATING AND CERTAINLY HOPE THAT MEMBERS OF THE SUBCOMMITTEE WOULD SUPPORT ANY AMENDMENTS OFFERED TO RESTORE THAT CUT WHEN THE BUDGET RESOLUTION IS DEBATED BEFORE THE FULL SENATE.

WHEN THE SUBCOMMITTEE BEGINS ITS DELIBERATIONS ON REAUTHORIZATION LEGISLATION, NACO URGES AN EXTENSION OF THE SECTION 3, SECTION 9, AND SECTION 18, PROGRAMS THROUGH FISCAL YEAR 1990. THE FEDERAL MASS TRANSIT PROGRAM UNDERWENT MAJOR CHANGES IN 1982 AND AFTER SEVERAL YEARS OF EXPERIENCE, THE NEW PROGRAM SEEMS TO BE WORKING WELL FOR COUNTY GOVERNMENTS. WE WOULD STRONGLY OPPOSE ANY PROPOSAL TO ELIMINATE THE OPERATING ASSISTANCE PROGRAM AND BELIEVE THAT SUCH ASSISTANCE SHOULD NOT BE REDUCED BELOW THE $875 LEVEL CONTAINED IN THE 1982 ACT.

WE THINK THAT THE 1982 ACT CONTAINED CERTAIN PROVISIONS THAT CREATED FLEXIBILITY AT THE LOCAL LEVEL AND SHOULD BE INCLUDED IN ANY REAUTHORIZATION MEASURE. THE 3-FOR-2 CAPITAL FOR OPERATING TRADE-IN PROVISIONS, WHICH LAPSED IN 1985, MAKES SENSE TO US AS LOCAL OFFICIALS AND SHOULD BE RENEWED, NOT ONLY BECAUSE SOME COUNTIES OR TRANSIT SYSTEMS CAN USE ADDITIONAL OPERATING FUNDS, BUT BECAUSE IT GIVES US FLEXIBILITY AT THE LOCAL LEVEL CONCERNING THE USE OF FEDERAL FUNDS. THE INTERSTATE TRANSIT-TRANSFER PROGRAM

ALSO PROMOTES THE FLEXIBILITY AND ALLOWS LOCAL OFFICIALS TO DECIDE HOW BEST TO USE AVAILABLE FEDERAL TRANSPORTATION FUNDS.

NACO MEMBERS BENEFIT MOST FROM THE SECTION 9 PROGRAM AND WE ARE CONCERNED ABOUT THE DECREASES IN FEDERAL FUNDS IN THIS PROGRAM AND IN THE RATIO OF SECTION 9 FUNDING IN RELATION TO THE SECTION 3 PROGRAM. WE REALIZE THIS IS DUE TO BUDGETARY PRESSURES AND THE FACT THAT SECTION 3 IS FUNDED WITH A USER FEE, BUT BELIEVE IT MAYBE NECESSARY TO RETURN TO THE 3:1 RATIO WHICH EXISTED SEVERAL YEARS AGO AS OPPOSED TO THE CURRENT 2:1 RATIO. THIS COULD BE DONE BY FUNDING PART OF THE SECTION 9 PROGRAM WITH PART OF THE PROCEEDS FROM THE 1¢ GAS TAX. THE 1¢ RAISES, ACCORDING TO RECENT CONGRESSIONAL BUDGET OFFICE ESTIMATES, ENOUGH TO SUPPORT A $1.9 BILLION DOLLAR PROGRAM AND WITH PRESENT SECTION 3 FUNDING AT $1 BILLION, SOME OF THESE FUNDS COULD BE DIVERTED TO SECTION 9. IF SECTION 9 FUNDING WAS FROZEN AT THE FISCAL YEAR 1986 LEVEL AND THE FULL $1.9 BILLION GAS TAX REVENUE WAS SPENT, WE WOULD HAVE $4 BILLION ANNUALLY TO SPEND ON TRANSIT.

IN ORDER FOR OUR LESS POPULATED STATES TO GET MORE FUNDING FOR TRANSIT, NACO WOULD SUGGEST THAT THE SIZE OF THE SECTION 18 PROGRAM BE INCREASED. THE FISCAL YEAR 1986 APPROPRIATION FOR SECTION 18 IS $57 MILLION, WHICH NACO BELIEVES IS GROSSLY INADEQUATE. THIS PROGRAM IS DESIGNED TO SERVE SMALLER COMMUNITIES AND IF AS MANY PEOPLE RIGHTLY CLAIM, SUCH COMMUNITIES ARE RECEIVING INSUFFICIENT FEDERAL TRANSIT RESOURCES, THE ANSWER IS TO BUILD UP SECTION 18. MANY RURAL COUNTIES RECEIVE THESE FUNDS AND THE CITIZENS OF THOSE COMMUNITIES ARE ENTITLED TO

Senator HECHT. Thank you. Every Member of Congress can relate to that. We are faced with the rock and the hard place daily, many, many times a day.

Mr. Francois.

STATEMENT OF FRANCIS FRANCOIS, EXECUTIVE DIRECTOR, AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

Mr. FRANCOIS. Mr. Chairman, I am Frank Francois, executive director of the American Association of State Highway and Transportation Officials. I am appearing today on behalf of the chief administrative officers of the departments of highways and transportation of the 50 States, the District of Columbia, and Puerto Rico.

Let me first apologize for the fact that our president, Tom Larson, could not be with us here this morning. Unfortunately, he has another meeting where he had to be, a meeting of the Northeastern Association of State Highway and Transportation Officials. The chairman of our standing committee on public transportation also could not be here because he is in China on a trade mission for his State of Michigan.

Mr. Chairman, AASHTO strongly applauds the committee for holding these hearings. We believe that reauthorization of the Urban Mass Transportation Act is one of our Nation's most important transportation needs and we strongly support an ongoing Federal program to assist public transportation in both capital and operational funding.

Mr. Chairman, we have provided to you our statement for the record. I would like to just pick a few things out of it if I might.

AASHTO POLICY COMMITMENT

I would note that the members of our AASHTO policy committee, who are as I said the chief administrative officers of the State transportation agencies, a few weeks ago adopted a policy resolution dealing with many of the issues before this Congress which we have provided to you.[1]

A key finding of that document was:

> A continued Federal program to assist public transportation is essential to meet both capital and operational funding needs and sustain present levels of service. The Federal, State, and local partnership should be continued with funding continued at least at current levels.

Now our resolution also made a number of recommendations with respect to the program. Key among those are that we believe some bill certainly needs to be passed before the October 1 deadline this year, and that we believe that that bill should provide multiyear obligation and contract authority for both the highway and the transit programs.

We also believe that there should continue to be general fund assistance in the transit program, as there has been in the past.

Mr. Chairman, turning now to the specific questions that were directed to us in your invitation to testify, with respect to the program funding levels, essentially we believe that any further cuts will do harm. We believe that we should try to maintain funding at about the current levels for the next 4-year period, recognizing that's going to be difficult to do but with the understanding that if we do not maintain those levels we will have some serious damage to transit in this Nation.

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[1] Retained in committee files.

With respect to the proposal of the administration for a combined highway and transit block grant, AASHTO has looked at this. We do not agree with it. We believe that Congress may, however, want to look at separate block grants in the highway and transit programs.

Our problems with the combined block grant include that it is a major change in how we do business with State and local governments and transit agencies, in these two very important and up until now separate programs. We believe that to shift to a block grant at this time with reduced funding would simply increase instability in our transit programs, at a time when the opposite is badly needed.

We also would note that there is considerable flexibility in the current UMTA Act, as Houston has shown. You've had testimony here today that outlines what can be done under the current program if the States and local governments want to.

FAIR SHARE ISSUE

With respect to the fair share issue of the transit penny, AASHTO has had to wrestle with this problem also. We've come up with no good policy position on it. We do know however that we should take into account several factors in looking at the issue.

No. 1, yes, it is true some States get more out of the transit penny than do others. But some States get more out of the Highway Trust Fund than others, too, and frequently they are not the same ones.

We also believe that you need to take into account section 9 funding in the overall transit funding picture and not concentrate entirely on where the section 3 funds are going.

With respect to the UMTA Act itself, we believe there are some changes that are desirable in that act. But essentially we believe they can be achieved through finetuning of the current legislation, rather than a major rewrite.

With respect to the distribution of the mass transit account by formula, this is an issue that we believe deserves a serious look. We do not have a specific recommendation on it at this time. We do note that any recommendation will depend in part upon the funding levels that we're talking about.

If the section 9 program remains sizable, then perhaps no redistribution is needed. On the other hand, if we move in the direction of using the MTA funding for everything, then maybe we do need to look at how it's done.

With respect to competitive bidding, the States strongly support the concept of involving the private sector to the greatest extent possible in the transit programs of this Nation, with limitations quite obviously.

I would note that we have provided to the committee a copy of our report, "A Study of Future Directions of Public Transportation in the United States" which discusses at some length privatization and what can be done with respect to that.

Our major concern here is that the decisions be left at the local and State transit operating level. We do not believe that you can sit in Washington and mandate how privatization should occur. The goal, yes. The mechanism, no.

With respect to UMTA regulations, generally we've had good experience recently working with UMTA and believe that most regulatory problems that we have with them can be resolved. We have no particular problems that we would request legislative action on at this time.

As to whether or not there should be grant criteria attached to the section 3 program, yes, we believe there should, and we have outlined in our testimony to you some of the concepts which we believe should be embodied in that.

Looking at section 13(c), I think the evidence shows, as Mr. Stanley has said, that at the very least section 13(c) has had a chilling effect on decisionmaking within the public-private relationship between State, Federal, and local governments and private agencies.

From my own personal experience while serving as a member of the board of directors of the Metropolitan Washington Area Transit Authority, I know that it can have a chilling effect. It delayed the building of a bus garage in this metropolitan area for some period of time until we were able to work out the problem.

Overall, Mr. Chairman—and let me conclude my comments with this—I would note that we think the Federal role in transit we think is important. It is true that over the last 5 or 6 years the States have been picking up more and more of the cost of public transportation in this Nation, to the point where the total amount of money now provided annually by the States is about $3.5 billion nationwide.

STATE AID HAS FLATTENED OUT

Now each year we have been surveying the States to determine what that trend is, and for the last 5 or 6 years there has been a constant growth. We must advise you that the preliminary results from our report this year indicate that that curve has at best flattened out. In point of fact, on the basis of 31 States that we have surveyed thus far, it is true that some 19 have increased aid, but some 12 have cut back their aid somewhat, not a great amount, but to such an extent that it seems evident that the curve is flattening out, which apparently means at least for now that in some States the end of State resources has also been reached.

We believe, therefore, that there must be a continued Federal presence. Thank you, Mr. Chairman.

[The complete prepared statement follows:]

BENEFIT FROM A FORM OF FEDERAL ASSISTANCE WHICH FOR MANY YEARS WENT ONLY TO URBANIZED AREAS.

IN REAUTHORIZING THE MASS TRANSIT ACT, WE MIGHT ALSO ZERO IN ON THE DEFINITION OF REHABILITATION AND MAINTANANCE. AS I UNDERSTAND IT NOW, OVERHAUL PROJECTS FOR VEHICLES ARE CONSIDERED MAINTENANCE RATHER THAN CAPITAL, AND AS A RESULT ARE NOT ELIGIBLE FOR FEDERAL REIMBURSEMENT. IT MAKES NO SENSE FOR THE FEDERAL GOVERNMENT TO AGREE TO PARTICIPATE IN THE PURCHASE OF NEW RAILROAD CARS, SUBWAY CARS, OR TROLLEY CARS, AND THEN PROVIDE NO METHOD FOR PERIODIC MAINTENANCE WHICH EXTENDS THE LIVES OF THOSE VEHICLES.

WE WOULD ALSO LIKE A PROVISION IN THE ACT WHICH WOULD ALLOW FOR MULTI-YEAR CONTRACTING ON MAJOR CAPITAL PROJECTS, SUCH AS THE MARKET-FRANKFORD ELEVATED PROJECT WHICH IS ESTIMATED TO COST IN EXCESS OF $300 MILLION AND IS SCHEDULED FOR COMPLETION BY 1993.

LIKE ALL FEDERAL GRANT PROGRAMS, UMTA FUNDS COME WITH CERTAIN CONDITIONS OR MANDATES WHICH RECIPIENTS MUST FULFILL IF THEY ARE TO GET SOME OF THEIR OWN CITIZEN'S FEDERAL TAX DOLLARS BACK INTO THE COMMUNITY FOR MASS TRANSIT PURPOSES. BUY AMERICA; HANDICAP REQUIREMENTS; DAVID-BACON; SECTION 13 (C) LABOR PROTECTION, AND MANY OF THE OTHER FEDERAL REGULATORY HURDLES MAKE IT MORE DIFFICULT FOR COUNTIES TO ADMINISTER OUR TRANSIT PROGRAMS. OBVIOUSLY, SOME OF THOSE REQUIREMENTS HAVE SOME SOCIAL UTILITY, BUT NONETHELESS, THEY DO DECREASE OUR ABILITY TO BE

FLEXIBLE IN THE OPERATION OF OUR MASS TRANSIT SYSTEMS. RECENT UMTA INITIATIVES IN THE REGULATORY FIELD RAISE QUESTIONS CONCERNING UMTA'S SENSITIVITY TO LOCAL GOVERNMENTS ROLE IN TRANSIT. UMTA'S EFFORT TO STOP ALLOCATING SECTION 9 TRANSIT FUNDS TO URBAN AREAS BETWEEN 50,000-200,000 AND GIVE THE STATES THE AUTHORITY TO DO THIS WAS PROBLEMATIC TO MEMBERS OF NACO. ALLOWING THE STATES TO DISTRIBUTE SECTION 9 FUNDS FOR SMALL URBAN SYSTEMS IS A POTENTIAL TROJAN HORSE THAT WOULD LEAD ULTIMATELY TO TURNING THE ENTIRE AUTHORITY FOR DISTRIBUTION OF TRANSIT FUNDS OVER TO THE STATES. THE UNEASE WITH WHICH, FOR EXAMPLE BROOME COUNTY VIEWS SUCH A PROPOSAL IS BASED IN LARGE PART ON ITS VERY UNSATISFACTORY EXPERIENCE WITH THE STATE OF NEW YORK, A PATTERN WHICH TAKES PLACE IN OTHER STATES AS WELL. FOR EXAMPLE, WHEN SECTION 8 PLANNING FUNDS WERE REDUCED BY 15%, NEW YORK STATE CUT AREAS SUCH AS BROOME, CHEMUNG, AND ONEIDA COUNTIES BY NEARLY 30%, WHILE LARGER URBAN AREAS WERE REDUCED BY AS LITTLE AS 7%. THIS WAS DONE WITHOUT ANY LOCAL CONSULTATION OR PARTICIPATION. UMTA SHOULD NOT LEAVE ALL FUNDING DECISIONS TO THE STATES WHEN FEDERAL INVESTMENTS ARE A RISK. INEQUITABLE AND INCONSISTENT PLANS FOR THIS KIND OF DISTRIBUTION WILL ASSURE A POOR RETURN ON THOSE FEDERAL INVESTMENTS. WHILE UMTA APPEARS TO HAVE BACKED OFF THIS CHANGE, NACO BELEVES THIS LAW NEEDS TO BE CLEAR ON THE ALLOCATION OF THESE FUNDS.

THE UMTA PRIVATIZATION REGULATIONS CURRENTLY UNDER CONSIDERATION ALSO NEED TO BE REVIEWED BY THIS SUBCOMMITTEE. COUNTIES DO INVOLVE AND WELCOME THE PRIVATE SECTOR WHEN

APPROPRIATE AND ENTREPENEURS CERTAINLY BENEFIT FROM THE FEDERAL TRANSIT DOLLARS COMING INTO LOCAL COMMUNITIES BOTH DIRECTLY, AND INDIRECTLY. WE MUST STATE THAT WE ARE ONLY IN THE TRANSIT BUSINESS BECAUSE THE PRIVATE SECTOR FAILED IN THAT ROLE AND WE ARE THE LEVEL OF GOVERNMENT WHICH THE CITIZENS LOOK TOWARD TO PROVIDE SUCH SERVICES. EACH LOCAL GOVERNMENT OR TRANSIT AUTHORITY KNOWS BEST AT WHICH PLACES IN ITS OPERATIONS THE PRIVATE SECTOR SHOULD BE INVOLVED. COUNTY GOVERNMENTS DO NOT NEED THE FEDERAL GOVERNMENT PUTTING ANOTHER MANDATE ON OUR BACKS IN AN AREA WHERE COUNTY GOVERNMENT CAN MAKE THE BEST DECISIONS GIVEN LOCAL CONDITIONS.

IF MEMBERS OF THIS SUBCOMMITTEE WANT TO GIVE PRIVATIZATION A BOOST, THEY SHOULD WORK STRENUOUSLY TO DEFEAT THE BOND PROVISIONS OF THE TAX REFORM LEGISLATION BEING CONSIDERED BY THE FINANCE COMMITTEE. IF THOSE PROVISIONS ARE ADOPTED, CURRENT PUBLIC-PRIVATE EFFORTS WILL SUFFER A MAJOR SETBACK.

SEPTA HAS FOR SOMETIME EMPLOYED THE "PRIVATIZATION" THEORY IN ITS OPERATIONS. CHIEF AMONG THOSE PRIVATIZATION EFFORTS - AND SUCESS STORIES - IS THE CONTRACTING OUT OF TICKET SALES ON THE REGION'S RAIL DIVISION. BUS REPAIRS AND REHABILITATION PROJECTS ARE ALSO DONE BY PRIVATE OPERATORS. MAINTENANCE IS DONE ON 20 REGIONAL RAILROAD STATIONS BY PRIVATE OPERATORS. THE ENTIRE PARATRANSIT SERVICE IS PROVIDED BY PRIVATE OPERATORS.

WHILE WE COMMEND THE FEDERAL GOVERNMENT FOR SUGGESTING STRONGLY THAT ALL TRANSIT AUTHORITIES LOOK TO PRIVATIZATION AS AN OPTION IN PROVIDING SERVICES, I CAN ONLY SAY AGAIN THAT

THE FINAL DECISION TO PRIVATIZE MUST BE LEFT WITH THE LOCAL AUTHORITY. THAT DECISION MUST BE MADE FOLLOWING SOUND FINANCIAL ANALYSIS, AS OPPOSED TO FULFILLING A QUOTA FROM ON HIGH. QUOTA SYSTEMS HAVEN'T WORKED IN THE PAST TO RIGHT OTHER WRONGS. QUOTA SYSTEMS WON'T WORK IN PUBLIC TRANSPORTATION PRIVATIZATION EFFORTS EITHER.

AS COUNTY COMMISSIONERS, WE CANNOT LOOK AT PUBLIC TRANSIT IN A VACUUM. THE CUTBACKS IN FEDERAL FUNDING THAT ARE PROPOSED FOR TRANSPORTATION HAVE TO BE TAKEN IN CONTEXT WITH THE OTHER CUTBACKS WHICH ARE CURRENTLY BEING CONSIDERED. CHESTER COUNTY IS FACING THE POSSIBLE ELIMINATION OF $1.6 MILLION IN GENERAL REVENUE SHARING FUNDS DURING THE NEXT FISCAL YEAR. THAT IS THE EQUIVALENT OF MORE THAN 1-1/2 MILLS OF REAL ESTATE TAXES. WE ARE LOOKING, IN CHESTER COUNTY, AT A NEARLY 1/3 REDUCTION IN COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS. THAT IS THE EQUIVALENT OF 8/10 OF A MILL OF TAXES, OR $800,000. SINCE 1981, BROOME COUNTY HAS INCREASED FARES ON ITS TRANSIT SYSTEM BY 50%, RAISED TUITION AT ITS COMMUNITY COLLEGE, SUBSTANTIALLY INCREASED BOTH THE FREQUENCY AND THE AMOUNTS OF USER FEES FOR A WIDE VARIETY OF SERVICES. NEVERTHELESS, IN SPITE OF THESE EFFORTS TO INCREASE REVENUES, MANDATED INCREASES IN A VARIETY OF PROGRAMS AND COMBINED FEDERAL AND STATE REDUCTIONS IN ASSISTANCE HAVE NECESSITATED A 97% PROPERTY TAX INCREASE IN BROOME COUNTY OVER THE LAST FIVE YEARS. PROPOSED CHANGES IN THE TAX CODE INCLUDING THOSE WHICH WOULD BRING A DRASTIC REDUCTION IN INDUSTRIAL REVENUE BONDS AND ELIMINATE THE DEDUCTIBILITY OF CERTAIN STATE AND LOCAL TAXES WOULD CREATE AN ADDITIONAL HARDSHIP ON LOCAL GOVERNMENT UNITS, INCLUDING COUNTIES.

AMERICAN ASSOCIATION OF STATE HIGHWAY
AND TRANSPORTATION OFFICIALS

THOMAS D. LARSON, President
Secretary
Pennsylvania Department
of Transportation

FRANCIS B. FRANCOIS
Executive Director

STATEMENT BEFORE THE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

Relating To

REAUTHORIZATION OF THE URBAN MASS TRANSPORTATION ACT

by

Francis B. Francois,
Executive Director

on behalf of the

American Association of State Highway
and Transportation Officials

April 15, 1986

Founded in 1914, AASHTO represents the departments concerned with highways and transportation in the States, the District of Columbia, and Puerto Rico, to foster the development, operation and maintenance of an integrated national transportation system. The active members of AASHTO are the duly constituted heads and other chief directing officials of the member highway and transportation agencies.

Mr. Chairman, my name is Francis B. Francois, and I am Executive Director of the American Association of State Highway and Transportation Officials (AASHTO). We are pleased to respond to your invitation to appear and offer the views of our member departments on reauthorization of the federal mass transportation program.

Mr. Chairman, AASHTO applauds the Committee for holding these very important hearings. We believe that reauthorization of the Urban Mass Transportation Act is one of our nation's most important transportation needs, and we strongly support a continued federal program to assist public transportation in meeting both capital and operational funding needs and sustaining present levels of service.

AASHTO's Policy Committee has just adopted a new policy resolution addressing surface transportation issues before the second session of the 99th Congress, which received the two-thirds affirmative vote of AASHTO member departments necessary to become AASHTO policy. A copy of the resolution PR 1-86 is being provided in its entirety for the hearing record, and it addresses both the federal highway and transit programs. Some of the principles and recommendations in PR 1-86 address issues identified by this Committee. Other issues before you have previously been addressed by AASHTO, and accordingly we are also filing a copy of our 1986 "Transportation Policy Book" for the record.

Looking at PR 1-86, Mr. Chairman, the following provisions thereof are specifically directed at matters before your Committee:

Overview:

- AASHTO's member departments recognize that public transportation is vital to meeting mobility needs in many places across the nation. Collectively the states are now contributing over $3 1/2 billion annually to meeting transit needs. A continued federal program to assist public transportation is essential to meet both capital and operational funding needs and sustain present levels of service. The federal, state and local partnership should be continued with funding continued at least at current levels.
- Currently, the federal support level for highways and public transportation is not capable of satisfying the traditional federal share in these programs. In response, state and local governments have been striving to significantly increase their own funding levels.

General Principles

- 4. The federal-state partnership in surface transportation can only be retained through enactment of a multi-year reauthorization of transportation programs.
- 10. Public transportation provides essential mobility to the nation's population, and is a vital component of the country's surface transportation system.

Recommendations:

- 1. Congress and the Administration should enact a multi-year reauthorization of transportation programs before October 1, 1986, when the current authorization legislation ends.

- 2. The federal Highway Trust Fund should be extended indefinitely to provide permanent, predictable and adequate funding for surface transportation purposes.

- 3. Reauthorization language must ensure program stability and reliability by including multi-year obligation and contract authority for surface transportation programs.

- 6. Transportation user revenues and interest accruing to transportation trust funds should be used only for transportation purposes.

- 8. The federal government should provide general fund assistance in the provision of adequate public transportation services as a separate program at stable and predictable funding levels.

- 9. Congress and the Administration should consider the concept of separate highway and public transportation block grants.

- 10. Funding of transit Interstate substitution projects should continue to be derived from the general fund, and not shifted to the Highway Trust Fund.

Turning now to the issues identified in your invitation for AASHTO to appear today, we will address them in the order presented.

Program Funding Levels

Mr. Chairman, the member departments of AASHTO share every American's concern over the federal budget deficit problem, and recognize that steps must be taken to bring the deficit under control. This Congress has enacted the Gramm-Rudman-Hollings law, the Balanced Budget and Emergency Deficit Control Act of 1985, which has already been implemented to make reductions on March 1 in the FY 1986 budget for public transportation. Unless the Gramm-Rudman-Hollings law is changed further reductions will be required thereunder this fall, reductions which are now predicted to be much larger than those of March 1.

While recognizing the need to balance the federal budget, we must express concern about the impact of the Gramm-Rudman-Hollings cuts in FY 1986 and the planned, much larger cuts for FY 1987. AASHTO remains committed to a State, federal, and local government partnership in meeting our public transportation needs, the effectiveness of which is reduced when the federal partner sharply reduces its contribution, as may occur under Gramm-Rudman-Hollings and as is proposed in the Administration's FY 1987 budget.

In many urban areas traffic congestion would rise sharply without public transportation. This increased congestion would directly affect transit users, automobile drivers and the motor carriers who operate on our highways, and indirectly affect every economic activity in the community that in any way relies on personal mobility or goods movement. For the transit dependent, who are also often the economically disadvantaged in our communities, reductions in or the elimination of transit services could sharply affect their ability to take part in the life of the nation.

While the States and local governments have been enlarging their support for transportation in recent years, the same cannot be said for the federal government. The Surface Transportation Assistance Act of 1982 promised substantial federal assistance for transit, but in the years since its enactment the reality has been considerably less than the promise. Now, the Administration's budget proposes still further reductions in federal support for the nation's public transportation programs.

While recognizing the need to reduce federal expenditures because of the budgetary deficit, the Association believes that the federal government should continue to carry its full share in the State, federal, local government transportation partnership. We must question whether the President's proposed budget does this.

As for the Senate Budget Committee proposal, faced with the reductions in funding already sustained by transit, we are concerned whether any further reduction is prudent.

Mass Transit Fund Issues and Proposals

Mr. Chairman, the issues of a transit/highway block grant and "fair share" return of the Mass Transit Account have been considered by the AASHTO Policy Committee.

Turning first to the Administration's proposal for a combined highway and transit block grant, AASHTO recommends that the Congress and the Administration consider instead the concept of separate highway and public transportation block grants. To combine the highway and transit programs in the manner proposed at this time with a substantial reduction in funding would upset the balance between the programs achieved in the Surface Transportation Assistance Act of 1982, and probable implementation difficulties across the nation would simply increase instability in our transportation programs at a time when the opposite is badly needed. Flexibility already exists in both programs to consider the most appropriate modal project, and this could be increased either across the programs or on a pilot program basis.

The "fair share" issue associated with the Mass Transit Account (MTA) has received considerable attention and debate within AASHTO, but we have not adopted any specific policy thereon. The issue is multifaceted and several factors need to be considered. By definition, any domestic program in which the federal government has a role necessitates the distribution of federal-generated resources, and the distributions vary by program and state. AASHTO has long supported a federal highway program which redistributes highway funding resources in a "fair" manner. Generally, those states receiving more highway funding than they contribute to the Highway Trust Fund

8. The federal government should provide general fund assistance in the provision of adequate public transportation services as a separate program at stable and predictable funding levels.

9. Congress and the Administration should consider the concept of separate highway and public transportation block grants.

10. Funding of transit Interstate substitution projects should continue to be derived from the general fund, and not shifted to the Highway Trust Fund.

11. The Congress and the Administration should not unduly constrain the states in their use of tolls, bonds and other financial options to support transportation facilities.

12. If Congress and the Administration do not enact authorization, apportionments and spending authority equivalent to all revenues accruing to the Highway Trust Fund, federal taxes should be proportionately reduced.

Senator HECHT. Thank you very much.

Mayor Goddard, nice to see you. I've been in the Senate now 3 years and you're the only one who's ever been able to time it perfectly so you don't have to wait several hours to testify. [Laughter.]

I've asked everyone to submit their written statement and try to summarize it in around 5 minutes if you could.

STATEMENT OF TERRY GODDARD, MAYOR, PHOENIX, AZ, REPRESENTING THE U.S. CONFERENCE OF MAYORS

Mr. GODDARD. Thank you, Mr. Chairman. I will certainly endeavor to play within those rules.

We appreciate the opportunity to speak on this subject. I've just come from also speaking about water for the State of Arizona and it seems like you have quite a lot of it here. Maybe we could take some back with us.

Senator HECHT. We share water in Nevada and Arizona.

Mr. GODDARD. Indeed we do. Thank you, Mr. Chairman.

I am Terry Goddard, mayor of the city of Phoenix. I'm very pleased to be here this morning to make a few brief remarks concerning public transportation.

I am speaking on behalf of the U.S. Conference of Mayors. On behalf of my colleague mayors, I'd like to thank you for convening this hearing.

The reauthorization of the Nation's Public Transportation Assistance Program has a high priority for all cities. This subcommittee is critical to that process and we hope to work very closely with you to develop an acceptable reauthorization approach.

Public transportation is a shared partnership between the Federal, State, and local governments and the private sector and each element must continue to play a part.

Through fiscal 1986, cuts in Federal transit spending have been significant, with more than 25 percent reduction in funding over recent years. We urge that new authorization legislation use this approach: Adopt the fiscal year 1986 level of general revenue funding as a minimum floor for future years and increase the authorization from the 1-cent gasoline tax set-aside from $1.1 to $1.9 billion.

CBO SUPPORTS NEW LEVEL OF SPENDING

The Congressional Budget Office supports this as a level which can be spent without raising the tax. Combining the frozen general

revenues with increased gas tax funds would yield a total national commitment of some $4 billion per year. This is a level which is reasonable given all reliable needs estimates and a fair assessment of how much more can be done at non-Federal levels.

We are obviously aware that economies are necessary on all sides of the ledger and let me just touch briefly on some of the items raised by the committee's questions.

The Transit-Highway Block Grant Program is one that we think is extremely interesting, but we have some reservations and questions about it. The flexibility of use incorporated into a block grant program is to be commended but we focused on two particular problems.

First, it's extremely difficult to attempt a fundamental revision of the transportation delivery mechanism at a time of declining resources when legitimate questions are being asked about continued Federal commitment.

Second, the State differences in approach, style, priorities, and players between highway and transit are severe so that it would seem that combining them into one pot might be perpetual division and the possibility of weighting any decision toward the highway interests.

We would support, however, a pilot program which would show how these transit block grants might work in the future and the idea of a mobility block grant on a small scale.

A couple other points and I will skip over some of my other remarks. As I said, we would like to see the gas tax money targeted at a higher level but not raising the tax.

The competitive bidding proposal which the Urban Mass Transportation Administration has proposed we have used in certain varieties in the city of Phoenix for many years. We have a private agency providing the operation of our transit system and we believe that additional bidding by private entities is a wise and timely matter.

Speaking for the Conference of Mayors, the time lines proposed by UMTA we think may be a bit stringent.

Mr. GODDARD. In conclusion, Mr. Chairman——

Senator HECHT. You've come a long way, mayor. We're not going to cut you that short.

Mr. GODDARD. Well, Mr. Chairman, we do believe that additional flexibility in the program would be appropriate, especially in midsized cities, using the Governors of the States to encourage that flexibility.

I am in a city which is in a new start situation. Obviously we are not being encouraged at this time to do anything more than planning. As especially rapidly growing cities in the Western United States are coming on line we believe that we should have additional encouragement to take advantage of the mobility of the multimodal opportunities for transportation which have been available for other cities in this country and, unfortunately, with some of the changes that have taken place in the past few years, that is no longer possible.

Mr. Chairman, I would encourage additional consideration so that we can proceed to join our sister cities with a fully implemented mobility system.

With that, I would be very happy to take questions from the committee.

[The complete prepared statement follows:]

do not receive as much transit funding as they contribute to the Mass Transit Account, which is one factor to take into account. The "fair share" issue with respect to the MTA should also take into consideration the formula grant transit programs supported by the General Fund, in which every state receives an apportionment of funds.

While many of AASHTO's member departments hold strong views on both sides of the issue about the "fairness" of the MTA and how it is currently administered, and which we have debated and analyzed at some length, we have not reached a consensus position supported by all of our member departments.

Program Design

UMTA Act Changes - The Surface Transportation Assistance Act of 1982 brought the hope of stability to our transit programs, one which has failed to materialize. We urge the Committee to carefully review the unpredictability and delays which have occurred over the last few years in the federal transit program, during which Continuing Resolutions have been the funding mechanism for the program. Final apportionments of FY 1986 UMTA funds did not occur until March 20 this year. Foremost among the objectives for reauthorization of the UMTA Act should be a stable, reliable, multi-year program. While we have already commented on the highway/transit block grant proposal, we offer the following additional recommendations:

- Transportation user revenues and interest accruing to the dedicated Highway Trust Fund and its Mass Transit Account should be used only for transportation purposes. The recent analysis of the Mass Transit Account by the Congressional Budget Office indicates that annual authorization levels of $1.9 billion could be supported by the revenues in the account. To keep faith with the users generating those funds, they should be expended.

- The federal government should provide general fund assistance for the provision of adequate public transportation services, as a separate program at stable and predictable funding levels. The Mass Transit Account established by the Surface Transportation Assistance Act of 1982 was expected to provide additional funding for transit, above and beyond general fund assistance. The Administration now proposes that no general fund assistance be provided for transit programs.

- Both a discretionary grant program and a formula grant program should be retained, with the ability to continue to utilize formula grant funding for operations.

- Mechanisms to permit states to reallocate formula funds within the state should be further streamlined in order to permit the most timely and flexible use of funds.

The above recommendations could most likely be accommodated through "fine tuning" of the Urban Mass Transportation Act, rather than a major rewrite.

Distribution of Mass Transit Account by Formula - As to whether a portion of the Mass Transit Account should be utilized for funding transit formula grants, we would base our comment on an assumption that authorizations for the

Mass Transit Account would be adjusted to reflect revenues accruing to the account, and that general funds would continue to be made available. We are thus faced with a situation wherein the dedicated funding source is producing higher than anticipated revenues and the General Fund is burdened with the overall deficit problem. This situation may necessitate a review of the appropriate balance between the discretionary grant program and the formula program. AASHTO has not yet taken a position on what that balance should be.

Competitive Bidding - AASHTO strongly recommends private sector investment in public transit facilities and service provision, but in a manner that gives state and local governments and transit agencies the ability to themselves decide how it can best be done. The role of the private sector in transit was discussed in our recent AASHTO Report titled "A Study on Future Directions of Public Transportation in the United States", a copy of which is being filed herewith.

Our members have filed detailed comments on UMTA's recent guidance on Private Enterprise Participation in UMTA Programs. The concerns expressed are generally directed at avoiding unnecessary paperwork and preserving a local decision making process, and many questions have been identified which need to be addressed. A prescriptive approach which necessitates an UMTA review of all local project decisions should be avoided, we believe.

UMTA Regulations

AASHTO has enjoyed a continuing good working relationship with UMTA, which we have worked hard to achieve in an attempt to parallel the very fine federal-state partnership we have enjoyed with the Federal Highway Administration for many years. We are in the process of establishing a subcommittee on grant processing within our Standing Committee on Public Transportation, to address UMTA regulatory and grant processing issues in detail. We have worked closely with UMTA in the development of guidance for the state administered Section 18 and Section 16(b)(2) programs, as well as the Section 9 program. We have also provided input to UMTA's review of the Section 15 reporting system. Most recently, we have proposed a new approach to expand to the public transportation mode AASHTO's extensive technical role we have developed in the highway program.

While like in many agencies there is room for improvement in UMTA's regulatory process, we believe we can continue to work effectively with UMTA administratively to achieve further efficiencies. Funding predictability remains the most difficult hurdle to overcome.

Discretionary Grant Selection Criteria

AASHTO has adopted the following policy recommendations with respect to criteria for major new start initiatives, which we commend to your consideration:

- The federal government should base the criteria for major new start initiatives on the worthiness of the project under consideration, as well as the financial capabilities of UMTA.

- The worthiness of new start in initiatives must be determined through the analysis of numerous factors, including but not limited to its importance to economic development and/or urban revitalization, service to the transit dependent, expected fare box recovery ratio, alleviation of automobile congestion, environmental and urban design impacts (positive and negative).

- UMTA should phase individual projects so that financial commitments are spread out over time rather than within a few year period.

- UMTA should set a maximum funding level standard which would cap the level of funding provided by the federal government for individual projects. Any costs above this level would be picked up by the local or state government.

- UMTA should require as a prerequisite for new rail start funds that the state and local government establish ongoing stable and reliable funding programs which will ensure the viability of future operations.

Labor Issues

AASHTO has recommended Section 13c administrative reforms be undertaken and that the requirements be waived for nonurbanized public transportation programs. In our review of the current efforts to increase private sector participation in transit, we continue to identify Section 13c as a significant barrier.

With respect to the Davis-Bacon act, AASHTO's position is that imposition of wage controls should not be applied to the construction industry that are not applied uniformly to all labor. AASHTO strongly feels that the Davis-Bacon Act represents just such a selective wage control, and unnecessarily increases project costs to the States and the Federal-aid transportation programs.

Federal Support for Transit

Mr. Chairman, the last issue identified in the letter of invitation for AASHTO to appear today may well be the most important. AASHTO has documented that our nation's prospective transportation revenues are grossly inadequate to meet its transportation system requirements for capital, maintenance and operations. While state and local governments have been continually increasing their transportation funding in recent years, our federal partner has not.

AASHTO has tracked state involvement in public transportation in considerable detail for the past six years. The testimony of Maryland Secretary of Transportation William Hellmann last week before the full Banking Housing and Urban Affairs Committee presented an outstanding example of a state which is not only heavily involved in financing transit, but which also actually constructs and operates a transit systems.

Our 1985 survey on transit activity and funding among our member departments found that state financial assistance for public transportation had increased substantially over the previous year, as it had in each of the previous five years. Forty-one states provided financial assistance for public transportation totaling approximately $3.5 billion in 1985, an increase of about $400 million over the previous year. The decline in federal funding in each of the last four years was partially offset by this growing state aid, and if the trend of the past 5 years continued we anticipated that 1986 might be the year in which state funding for public transportation would surpass federal funding. Assuming that the federal transit program is not sharply cut in FY 1987, we now believe that federal funding will remain greater than total state funding.

The preliminary results of our 1986 survey are in, and they reveal that we are now at a new critical stage in public transportation financing. For the first time in recent years, total state funding for public transportation appears to have leveled off. In several cases, in fact, state funding has declined. The message is clear, that the substantial growth each year in state funding for transit experienced over the last several years is not being sustained. While this growth may heretofore have partially offset reductions in federal funding (although growing needs would have warranted increases at all levels), we may have reached a limit at least for now. The drastic reductions in transit funding proposed by the Administration, therefore, probably count not be mitigated by the states at least in the near term, and thus they could have a devastating effect on public transportation services in our nation.

Mr. Chairman, AASHTO hopes that the federal government will continue to provide a "fair share" in the federal-state-local government support of mass transit.

We urgently need to bring stability to our public transportation program through a clear signal by the Congress by enactment of a stable, reliable multi-year reauthorization of the Urban Mass Transportation Act.

We have attempted, Mr. Chairman, to address the issues identified in your letter of invitation to testify. They indeed represent the major issues we face, and we again applaud the Committee for seeking to resolve them. AASHTO stands ready to work with you in any way we can be of further assistance.

I would be pleased to respond to any questions you may have, now or later in writing.

AMERICAN ASSOCIATION OF STATE HIGHWAY
AND TRANSPORTATION OFFICIALS

THOMAS D. LARSON, President
Secretary
Pennsylvania Department
of Transportation

FRANCIS B. FRANCO
Executive Director

Approved by written ballot of
the AASHTO Policy Committee
March 31, 1986, by more than
the required two-thirds
majority vote of all the
member departments.

PR1-86 - Congressional Action in 1986 Affecting Transportation

WHEREAS, the 99th Congress will be considering several matters during 1986 that can impact on the nation's transportation programs; and

WHEREAS, the member departments of the American Association of State Highway and Transportation Officials, representing the transportation agencies of the fifty states, Puerto Rico and the District of Columbia, have a deep interest in and concern about the transportation-related issues before the 99th Congress, and want to advance their observations and recommendations with respect to the issues under consideration:

NOW THEREFORE, the Policy Committee of the American Association of State Highway and Transportation Officials (AASHTO), by the affirmative vote of more than two-thirds of its 52 member departments, does hereby adopt the following statement as official policy of the Association:

Introduction

The member departments of AASHTO are involved in all modes of transportation, and recognize that each has a significant role in meeting the overall transportation needs of America. Of primary concern to the member departments in 1986, however, are the highway and public transportation programs, since the Surface Transportation Assistance Act of 1982 is set to expire on September 30, 1986.

Overview of the Federal-aid Highway and Transit Programs

The 70 year old federal-state partnership in highway finance has produced the finest highway transportation system in the world, financed on a pay-as-you-go basis with revenues collected primarily from users. The 850,000 miles of the federal-aid highway system are a most significant portion of our 3.9 million miles of highways, roads and streets, and carry some 90 percent of the nation's traffic. The economy of our nation, the mobility of our citizens, the ability of our commerce and industry to move goods and commodities, and our capability to progress as a nation are all dependent upon the extent to which we preserve, rehabilitate and enhance the capacity of those 850,000 miles, and complete long-promised Interstate construction activity.

Analysis by AASHTO of the funding required to adequately meet the requirements of the existing federal-aid system conservatively found that combined federal, state and local government expenditures on the system should be in excess of $27 billion per year, just to maintain 1980 conditions and accommodate modest traffic growth. Others have estimated these requirements at a few billion dollars less, or more. To sustain an annual $27 billion overall program under the current federal-aid highway program formulas would require a federal contribution in excess of $21 billion, which is more than 50% in excess of Fiscal Year 1986 funding levels.

AASHTO's member departments recognize that public transportation is vital to meeting mobility needs in many places across the nation. Collectively the states are now contributing over $3 1/2 billion annually to meeting transit needs. A continued federal program to assist public transportation is essential to meet both capital and operational funding needs and sustain present levels of service. The federal, state and local partnership should be continued with funding continued at least at current levels.

The responsibility for the provision of transportation has been placed upon the states. The federal role in transportation is supplementary to the heavier financial burden of state and local governments. In the reform of the federal tax program, restrictions on the use of financial instruments designed to fund transportation must not be included. The cost of public facilities for transportation essential to national security and economic prosperity will only be increased under such proposals.

Currently, the federal support level for highways and public transportation is not capable of satisfying the traditional federal share in these programs. In response, state and local governments have been striving to significantly increase their own funding levels. Further exacerbating the difficult challenges facing the states has been the consistent federal abuse of the user-supported trust fund concept of transportation finance. Limitations on obligations, delayed authorizations and appropriations, unrelated requirements and other regulatory barriers greatly hamper the states' ability to provide adequate transportation services in an era of severely limited resources. Abuse has reached such critical proportions that the very fabric of the nation's transportation system is threatened. If left unresolved, the federal government's compact with the American people to deliver safe, efficient, and effective transportation services in return for user fees will have been irreparably damaged.

If even less federal funding is to be available, service levels will inevitably be reduced crippling the nation's economy and choking the very mobility which has made this nation so great.

It is in the light of these documented findings that AASHTO must view matters before the 99th Congress. In so doing, however, certain inescapable facts should be kept in mind. These include the increased movement of military traffic, growing reliance on trucks in the flow of interstate commerce, and a continuing increase in their size and weight to improve productivity. Another is the increasing congestion in rapidly growing urban areas of America The accelerated deterioration of highways and bridges carrying larger, heavier and more numerous loads and the growing congestion in suburban areas have left the country with an imbalance between required surface transportation improvement projects, and the resources available to fund them.

The implementation of the Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act of 1985 requires that difficult choices be made by this Congress. During 1986 Congress must face the demands of this Act, and also enact new surface transportation legislation. While the requirements of deficit reduction are indeed pressing, vital surface transportation needs cannot be ignored nor can the federal compact with highway users be abandoned without endangering the economic vitality and mobility of this nation. To do so will destroy the long standing federal-state partnership which has made these United States of America the most mobile nation in the world.

A number of areas concerning highways and public transportation must be addressed this year, and for this second session of the 99th Congress AASHTO supports the following overall principles and specific program recommendations:

General Principles

1. Highways in the United States have traditionally been a government responsibility.

2. The health of the federal-aid highway program and the federal-aid system is critical to the economic well-being and national defense of the country.

3. The federal-state partnership has produced the best highway system in the world, having served the nation well in so doing.

4. The federal-state partnership in surface transportation can only be retained through enactment of a multi-year reauthorization of transportation programs.

5. The nation's Interstate highway system has vastly improved the safety and mobility of all Americans, and the accessibility and economic viability of each of the fifty states.

6. The modern federal-aid highway system has been developed on a pay-as-you-go basis, financed primarily with user fees deposited into a Highway Trust Fund dedicated to carrying out the specific purposes of the federal-aid highway program.

7. The nation's highway program is severely underfunded by a substantial amount compared to present requirements to maintain even minimum acceptable service levels, much less serve future requirements.

8. The present federal-aid highway program is less effective than it should be, disruptive through its current instability, and misleading in that it purports to adequately address the nation's highway requirements.

9. The use of the Highway Trust Fund to balance the general fund budget breaks faith with the statutory compact made with highway users; masks the real deficit problem; and is incompatible with a stable and predictable federal-aid highway program.

10. Public transportation provides essential mobility to the nation's population, and is a vital component of the country's surface transportation system.

Recommendations:

AASHTO makes the following recommendations:

1. Congress and the Administration should enact a multi-year reauthorization of transportation programs before October 1, 1986, when the current authorization legislation ends.

2. The federal Highway Trust Fund should be extended indefinitely to provide permanent, predictable and adequate funding for surface transportation purposes.

3. Reauthorization language must ensure program stability and reliability by including multi-year obligation and contract authority for surface transportation programs.

4. Highway user fees should be placed in the Highway Trust Fund and used only for transportation programs. Congress and the Administration should achieve deficit reduction requirements without violating the compact with the American people on the collection and use of highway user fees. Highway user fees should not be used for artificial and deceptive deficit reduction efforts.

5. Highway user revenues must be fully returned to the states through timely authorization, apportionments and spending authority equivalent to all revenues accruing to the Highway Trust Fund.

6. Transportation user revenues and interest accruing to transportation trust funds should be used only for transportation purposes.

7. The twin goals of completing the Interstate system as presently defined (including Interstate substitute projects) by 1990, and providing for on-going preservation of the nation's Interstate highway system, remain AASHTO's number one priority. Sufficient funding and spending authority to meet these twin goals must be guaranteed in the next reauthorization bill.

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STATEMENT OF

THE HONORABLE TERRY GODDARD

MAYOR OF PHOENIX

on behalf of

THE UNITED STATES CONFERENCE OF MAYORS

on

REAUTHORIZING FEDERAL TRANSIT PROGRAMS

before the

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

April 15, 1986

Mr. Chairman and members of the Subcommittee, I am Terry Goddard, Mayor of Phoenix. I am pleased to be here this morning representing my city and the U.S. Conference of Mayors, which is composed of the nation's principal cities.

We have some very brief remarks, organized along the lines of the specific questions asked in your letter of invitation. Following that, I look forward to a good discussion with you on this important subject.

First, on behalf of my colleague Mayors, thank you for convening this hearing. The reauthorization of the nation's public transportation assistance program is a high priority for all cities. This Subcommittee is critical to that process and we hope to work very closely with you to develop an acceptable reauthorization approach. Public transportation is a shared partnership between the federal, state and local governments and the private sector, and each element must continue to play an important role.

Program Funding Levels

Through fiscal year 1986, cuts in federal transit spending have been significant, with more than 25% reduction in funding over recent years. We urge that new authorizing legislation use this approach: adopt the FY86 level of general revenue funding as a minimum floor for future years and increase the authorization from the one-cent gasoline tax set-a-side from $1.1 billion to $1.9 billion. The Congressional Budget Office (CBO) supports this as a level which can be spent without raising the tax. Combining the frozen general revenues and increased gas tax taxes, increasing contributions, rationalizing service and in every other way being creative to properly finance transit. The states are doing more and their record will improve as well. We are now on the threshold of a whole set of important new relationships with the private sector as well. So the outstanding questions is what will the federal government role be? We hope it will be a strong one in the nature of a partnership, because in many respects it is the glue which holds the partnership together. The federal government should be proud of the transit resurgence it has helped initiate. It should be committed to continue it with improvements which are necessary and a willingness to work with us to better transit in our cities.

Mr. Chairman, we appreciate the opportunity to visit with you. I look forward to your questions.

Senator HECHT. Thank you very much.

Before we start our questions, I want to acknowledge that we are very honored today to have a group of Governors from Morocco who are very interested in urban affairs and we welcome you here and anything we can give to you afterwards, we'd be happy to. Would you mind standing up so we may acknowledge you?

[Applause.]

REFORMS ON SECTION 13(c) OF THE ACT

Senator HECHT. Many of you have recommended administrative reform to section 13(c) of the act. In the testimony we will hear later today the Amalgamated Transit Union states that there are no problems with this section.

Could you elaborate on what changes we can adopt and why they are needed?

Ms. KANE. The National League of Cities has some specific ways that we think it should be both improved and clarified, and that would be to answer those questions that we iterated before as to exactly who it applies to, whether it applies to outside firms, whether it applies to paratransit, private sector transportation, intercity bus service.

We don't have a policy that would say what the answers to those questions should be, but the uncertainty and the lack of clarity and therefore the confusion that is raised has made it very, very difficult for cities to decide or to know how to operate and to make decisions about transit.

Senator HECHT. Would anybody else want to comment on the panel?

Mr. THOMPSON. I think one of the things that we're concerned about from the county commissioners' point of view in NACo is the transit properties or transit agencies are going to be caught in between a dispute between the Department of Labor and the Department of Transportation. We would like to get all those disputes ironed out and all those clarifications made and all those problems resolved before we have to get involved any more heavily in privatization.

Senator HECHT. Does anyone else have any comments on that? Let's go right on.

Are there any impediments at the State and local level that would preclude expanded private sector involvement? If so, what are you doing to change this?

Mr. FRANCOIS. Mr. Chairman, just some comments. There would be some State laws and some city and county ordinances in some States that would pose problems in several areas. I think those are being attacked generally across the board. I know that from a State viewpoint we have a special task force that has now been created under our standing committee on public transportation that will be looking at these very issues.

There are such things as insurance laws. There are such things as to if and how you can contract out for services. Also involved here I would note may well be the outcome of the Federal Tax Reform Act, and how it might affect safe harbor leasing and a number of the other current tools that have been used by some agencies around the Nation.

The ability of local governments to use revenue bonds, et cetera, and State governments, could both have an impact here. So all of those things need to be taken into account.

Senator HECHT. I assume you're in favor of keeping the revenue bonds tax exempt. Are all of you in favor of that?

Mr. FRANCOIS. We certainly are.

Mr. THOMPSON. Very much so.

Senator HECHT. Let the record show that.

Mr. GODDARD. Mr. Chairman, if I could just add on that point, we have a situation in Phoenix, AZ, where we do use a private concern to run our transit system. My understanding of the current proposals on the tax reform bill are that we could therefore not buy rolling stock and other capital equipment using tax exempts and I think that's an ironic result considering the declared interest by the Department to have additional contracting out.

Ms. KANE. Mr. Chairman, the League of Cities sees a very inherent contradiction in the Federal Government's approach to privatization. As others have mentioned, on the one hand, while we're encouraged to involve the private sector, we are penalized by losing access to tax-exempt financing when public purposes become intermingled with private purposes. And like the situation on section 13(c), it puts us in the position of heads you win, tails we lose. If we follow the privatization mandates that are proposed, then we would not be able to use or there would be disincentives in the proposed tax reform for public-private partnerships and you get hit both ways. It can't be done.

Mr. THOMPSON. Probably the most valuable tool for privatization are IRB's and safe harbor leasing and they just have to be continued in order to provide what needs to be provided by the private sector.

Privatization in the concept is excellent, but again, unless the financing tools are there for the local jurisdictions to use, it just won't work.

Senator HECHT. Mayor Goddard, you were recently quoted in Time magazine saying that because of the Gramm-Rudman-Hollings cities are in a great fiscal bind that they would have to be more dependent upon their own resources and be more innovative about ways in which to cut costs.

I agree with you and compliment you on this upbeat position. We in Washington are also in a fiscal bind and that is why we have Gramm-Rudman-Hollings on the books.

Could you provide us with information on what innovations you have or plan to employ in Phoenix and give us some recommendations on altering the structure of the Transit Program to better facilitate this innovation?

Mr. GODDARD. Thank you, Mr. Chairman. We understand I think in all the cities the difficult position that the Federal Government is in at this time. I think the purpose of this testimony, however, is to encourage not throwing the baby out with the bath water in areas that are as important to the continued viability of our economy at the grassroots as we believe public transit to be.

PRIVATIZATION OF ACTIVITIES

In the city of Phoenix, we have been active for some time and at an increasing level recently in the privatization of many of our activities. We have been I think a national leader in the area of taking our sanitation service, our transit service, our security service, and many other aspects of municipal services into the lowest bid, and I think this has generally been very successful.

One thing I would note is that we bid our public sector employees against the private sector. Initially that resulted in a substantial flow of contracts to the private sector. We were losing the bids. That has been reversed, I am pleased to say, at least in the sanitation area and our sanitation facilities have now gotten lean enough so that they are winning the bids back and it's increased our confidence in municipal services substantially.

So I would concur with my colleagues on this panel in the discussion that privatization in the transit area, along with many other areas of municipal government, is a very positive way to go.

We in Phoenix are just starting the concept of total mobility. We have received recently substantial State money to supplement interstate funds for building a highway system. A small amount of that money has been earmarked for planning from a local funded source for transit in the central Arizona area. We believe that that, in conjunction with some of the UMTA planning money, will give us in a period of 3 years a very solid approach to the kind of system that we have to have. At that point we are prepared to go back to our State central Arizona taxpayers and ask them for a sales tax increase to help to pay for our transit system.

It is our opinion, however, that even with the State funds, with the additional privatization, we are still going to need some significant encouragement which has been forthcoming in the past from the Federal Government in order to make this mobility system truly effective.

Senator HECHT. Thank you for an interesting statement and I agree with you.

Could each of you comment on what sort of selection criteria for discretionary projects could be adopted?

Mr. **Francois**. Mr. Chairman, I would only note again that in our statement we provided you with a list of what AASHTO thinks should be looked at, and I would just refer you to that as our response to that question.

Senator **Hecht**. Thank you very much.

What are your thoughts on claims that transit decisions are based more on available Federal funds and not on mobility needs?

TRANSPORTATION PLANNING

Ms. **Kane**. Having served not only on the local city council here but on the regional council of governments which plays a very large role in transportation planning, I can only testify from my own personal experience that transit decisions are made certainly in this metropolitan area—and in talking with my colleagues around the country—they are made on the basis of ridership; they're made on the basis of need; they're made on the basis of statistics; and that those are the decisions that are made first; and then the search for funding occurs in terms of how you can plug into and take advantage of both the Federal and the local programs.

Senator **Hecht**. Mr. Thompson, do you care to comment on that?

Mr. **Thompson**. We obviously start with the need first. Our final decision is going to consider where the funding comes from. Obviously, the availability of Federal funding is important, as is in local funding availability. But primarily, we look at exclusively any new routes or any new changes in service based on need and then, as Ms. Kane said, it goes to where the moneys come from.

Senator **Hecht**. You more or less answered it, but if you want to continue, mayor.

Mr. **Goddard**. Mr. Chairman, I think I have answered. We have at the moment no prospects for Federal funding for construction of our transit system in terms of a new start. So obviously our plans are not dependent upon Federal funding.

We are proceeding out of sheer necessity. It is my analysis and that of our transportation planners that unless Phoenix and other Western cities develop a total mobility system, we are going to face gridlock in the very near future.

Mr. **Francois**. Mr. Chairman, I don't think there's an easy answer to that question from our perspective. Let me just comment a bit.

In our large metropolitan areas the Federal programs are not nearly as important as they are in many of the smaller cities, and that needs to be kept in mind. Certainly in a New Jersey or Maryland Federal funds do not drive the Transit Program. The need is there. It must be met. The same is certainly true in Houston, as we have heard here today, and in Dallas where the North Central Freeway project, which is a combined highway-transit project, will be built with State-only funds. So it's quite clear that there Federal funding is not a driving factor.

On the other side of the coin, to talk for just a bit about the section 18 program and the section 16(b)(2) program, they would not survive without Federal funding, and it is quite clear that Federal funding does drive those particular programs.

The section 18 program is a Rural Transportation Program that has taken several years to bring up to full speed. It is now operating well. There are about 1,000 section 18 systems. The States are currently actually obligating more money than is available every year because they're using prior year balances. It is a program that is doing well, and without Federal funding it would collapse in all States.

The section 16(b)(2) program is very similar for the elderly and handicapped. Most of the States report to us that they are receiving two to three times as many applications for the money than there is money available. Again, that is a program that would clearly need Federal support.

Just one word on privatization in this respect, too. We need to keep in mind that not all privatization and indeed very little of it can operate strictly out of the fare box. There must be some support elsewhere there, too. So I think overall it's fair to say that the presence of Federal assistance is very important in some programs, less important in others, and it's difficult to make a generalization that will apply to everyone.

Senator HECHT. Thank you.

Mr. THOMPSON. If I could add a thought. In the Philadelphia area alone we have capital needs on our railroad division of $1 billion over the next 5 years. We have 150 million dollars' worth of capital money coming from the Federal Government. So our needs far, far outstrip any prospects of Federal funding over the next 5 to 10 years.

Senator HECHT. Do you want to comment on that, Mayor Goddard?

Mr. GODDARD. No; I would simply agree.

Senator HECHT. Do you think that private sector representation and local transit boards would assist you in providing for your transit needs?

Ms. KANE. Let me say that, for example, in most jurisdictions when you have elected officials serving on your transportation boards as we do here in the Washington metropolitan area with the metro system, they are private sector people. They are people who work in the private sector as their regular job and who are elected to their position, but they are from the private sector. There are very few instances I think you see full-time government employees on these boards at the county level, at the city level, et cetera. So there is private sector involvement.

When we're taxing—we in the District of Columbia subsidize metro $100 million a year. That money comes from our taxes on the private sector. The private sector through the Federal City, the Greater Washington Board of Trade, is very involved in the planning, in the implementation process for transportation because it's very important to the private sector.

Senator HECHT. Does anybody else want to comment?

Mr. THOMPSON. Of the 11-member board of the Southeastern Pennsylvania Transportation Authority, 2 of the 11 members are elected officials. The rest are from the private sector, if you could count attorneys as private sector animals, and they range everywhere from accountants to consultants to a railroad operator. So there is a broad spectrum of nonpublic employees on the policy board.

Mr. GODDARD. Mr. Chairman, the Conference of Mayors' position is simply to oppose a mandate. As a practical matter, I know many transit authorities do have private sector representation. Ours does not, but there I'm talking about the central Arizona very newly formed transit authority which has so far nothing to administer. We've had only two meetings and we're very much in a planning mode. It consists of the mayors of the five cities that have agreed to join together in transit planning. So I think eventually we may evolve into a higher form of life. At the moment it's just elected officials.

Mr. FRANCOIS. Just to wind this up, I would note also that again there are State laws in some instances that would prohibit this from happening. I think it is essentially a State and local issue that should be decided at that level and that's the way AASHTO would come down with respect to it. Again, I note that most local officials are part-time people who come out of the private sector anyway. So I think this is a red herring that really doesn't have too much to do with the real world because the private sector is involved in almost all of these instances.

UNITARY AUTHORIZATION

Senator HECHT. Thank you. Councilwoman Kane has suggested a unitary authorization with 75 percent of Federal funds being allocated on a formula basis. What are your thoughts on this proposal?

Mr. FRANCOIS. Mr. Chairman, back to the comment I made earlier, I think we would need to know what the size of the appropriation was and what the allocation of it was before we would be prepared to comment in any detail. It certainly is something that should be looked at or which can be looked at.

Senator HECHT. If it was roughly at last year's level, would you support it?

Mr. FRANCOIS. If it was at last year's level I think we would tend to support keeping the current program basically in place at those levels. I think that would be the basic approach, but I would have to reserve judgment on that.

Senator HECHT. Anyone else?

Mr. THOMPSON. We would support last year's levels.

Senator HECHT. OK. With regard to operating funds, it has been shown the smaller systems are much more dependent. Could we restrict operating fund availability to those now more dependent upon them, allowing the larger, less dependent systems to look to local sources for these funds?

Ms. KANE. Mr. Chairman, two things on that. The League of Cities does support as part of the formula a consideration of the ability of the local jurisdiction to pay. That has to be a very sensitive formula that would take into account both the demographics and the legal taxing authorities that that jurisdiction has. Properly done, that could be a part of the decision in terms of the funds that could be available, but let me add again that the tax reform measure is going to exacerbate seriously the ability of local governments to come up with not only their current share but any increased share and will very seriously complicate any efforts to put into effect a factor for ability to pay, particularly eliminating deductibility of State and local taxes which is going to make it very, very incredibly difficult.

In the District of Columbia, our maximum State and local income tax rate is 11 percent and eliminating the deductibility of that for people in the higher brackets has the practical effect to some people of raising their State and local taxes to 16 percent, an effective tax rate. There is no way that you can bear with that kind of proposal from the administration on the one hand and also built into transit funding a factor for ability to pay unless you reduce everybody's ability to pay to zero.

Senator HECHT. Thank you.

Mr. THOMPSON. Mr. Chairman, what that proposal does is argue for flexibility and for block grants. Small systems vary in their needs. A new system is very capital intensive to start. You need the buses to start the system up in rural areas. The capital needs may outweigh the operating needs.

In other areas you need a very small fleet, a very small capital expenditure, but your operating costs are high because of the spreadout nature of rural transportation systems.

So again, the ability of the local authorities to make the decisions with regard to funding would be very, very attractive to small operators.

Senator HECHT. Does anyone else have anything to say on that?

[No response.]

Senator HECHT. Let's go on to the last question.

LOCAL FUNDING

Mr. Francois, Councilwoman Kane has suggested in her statement that in order to encourage greater local participation she supports inclusion of a measure of non-Federal revenue contributions in both formula and discretionary apportionments so as to encourage State legislatures to permit local governments to raise transit funds.

What are your thoughts on this proposal?

Mr. FRANCOIS. If it would encourage that, I don't think we would have any problems with it. I think it is clear that our State legislatures generally are addressing the ability of local governments more than they have in the past. It clearly is a problem in many States that cities and counties are hamstrung in what they're able to do and if we're talking about a Federal, State, local partnership, anything that would encourage the State legislature to structure things so that we could truly meet obligations at the local level makes sense.

So I think overall we would support this, if it would work—and I would want to think that through. But anything that would encourage States to increase flexibility of funding for cities and counties I could only applaud.

Senator HECHT. Thank you.

Mr. GODDARD. Mr. Chairman, likewise, we have been very vigorous in trying to get our State legislature—speaking again of the local Arizona situation—to be helpful in public transit assistance.

They so far have been generous only in allowing our locality to tax ourselves for providing that assistance, a generosity which some might question.

We think we could use—it is a statewide problem we think in many cases. The most promising avenue for assistance we have found so far is in the area of air pollution. They have recognized that because of the car-generated pollution problems that we now have in central Arizona that perhaps some State funding will be mandated and be necessary in order to get public transit farther along. Otherwise, we have not been successful and I would applaud any kind of formula which encourages the States to participate along with cities and counties.

Senator HECHT. Anything, Mr. Thompson?

Mr. THOMPSON. We basically have that participatory way of doing things in Pennsylvania. We have had a growth of State subsidies and a subsequent match of those subsidies at the local level. There is no dedicated form of revenue for public transportation in Pennsylvania, but the legislature has increased its overall role in the local transportation process. The problem is that the local match, which amounts to about 4 percent, is derived from real estate taxes in the four counties and the city of Philadelphia. The four counties can only enact real estate taxes as a source of revenue and what we're doing is seeing a disproportionate share of local real estate tax being used to fund transportation in the region.

Ms. KANE. Mr. Chairman, let me clarify lest what the National League of Cities' position is be misinterpreted.

The National League of Cities very strongly supports and clearly supports including incentives that would increase or remove barriers at the State and local level toward increased State and local contributions toward public transit.

We do not and would be totally opposed to using that as an excuse or as a reason to cut back on the Federal commitment to transit. Again, an example from the Washington metropolitan region several years ago with prodding from Congress all three jurisdictions—the State of Maryland, the State of Virginia, and the District of Columbia—enacted legislation identifying a stable and reliable source of local funding for Metro. That was supposed to secure then the Federal contribution at the proposed and promised level. Now that has been cut out. The current proposal is to totally eliminate operating assistance, which is exactly the opposite of what was entered. We cannot finance—and I know of no city—that can finance deficit reductions with State and local resources.

Senator HECHT. Thank you very much. That concludes the questions. I appreciate all of you traveling long distances and thanks again. We will have some more questions for the record for each of you to answer.

Our fourth and final panel, Mr. Robert Molofsky and——

Mr. LUBY. My name is Art Luby. I'm appearing for John Lawe.

Senator HECHT. Fine. We're happy to have you here. You want to start off, sir?

STATEMENT OF ROBERT A. MOLOFSKY, APPEARING FOR JAMES LaSALA, INTERNATIONAL PRESIDENT, AMALGAMATED TRANSIT UNION, AFL-CIO, CLC

Mr. **Molofsky**. Mr. Chairman, I appear here on behalf of our international president, James LaSala, to present our union's views on the programs and policies necessary to continue the Federal Government's commitment to serving the Nation's transit needs.

The ATU believes in the national transportation programs which the Congress and in particular this committee has put together since 1964 as most recently revised by the Surface Transportation Assistance Act of 1982. The program has worked well and its benefits are visible in almost every city throughout the country.

As this committee and the Congress has shaped the national program over the last 20 years, it has recognized that it has responded to State and local transit needs, the transit industry's own concerns for providing effective service, and from our view, a blending of those needs with important national labor policy goals—the protection of collective bargaining rights and job rights for the Nation's transit employees who have long served this industry and the Nation's riders.

SUPPORT FOR SECTION 13(C)

Unfortunately, from our view, the administration in characterizing the blend of transit issues into this national transit policy has continued to rely on anecdotal evidence which in our view doesn't properly or correctly portray the way the program has worked over that period and we have set forth in our testimony what we believe is the record in terms of how section 13(c) has worked to allow for progressive transit development over the years.

At the time the Surface Transit Act was under review we expressed our support for the 1-cent increase in the Federal fuel tax dedicated to mass transit and a strong and adequately funded Block Grant Program providing revenues for both capital and operating assistance.

Today we again endorse these programs which remain essential to the continued expansion and development of urban and rural communities throughout the country.

We categorically reject administration and other proposals which would radically alter the present structure. Rather, with the inclusion of several features designed to fine tune and improve the current program, we strongly support a 4-year extension of the Surface Transit Act and pledge to you our full cooperation to make this a reality in 1986.

We believe the 1986 legislation should provide for a new 4-year bill containing funding for both operating and capital assistance at current funding levels, that it should extend the section 3 program with assurances that the full amount generated by the gas tax be equitably spent on transit needs.

We call for the renewal for the three-for-two capital-operating trade-in to provide local flexibility with the use of operating assistance and multiyear funding commitments.

Finally, because of expanding efforts by UMTA to impermissible intrude into local transit decisionmaking and collective bargaining matters affecting the method and means by which service shall be provided we are proposing specific amendments to prevent the application of federally mandated privatization or competitive bid requirements to the distribution of transit grant funds.

Passage of a 4-year bill with these improvements would properly carry forward the longstanding Federal commitment to serving our Nation's transit needs.

Unfortunately, Mr. Chairman, the administration's budget and legislative proposals are seriously flawed and designed to undermine this commitment. We have outlined in our testimony the highlights of the administration's proposal.

I would like to focus your attention in our brief comments before you on two principal components of the administration's proposal. That is, efforts by the administration to dictate to cities throughout the country how they should provide service. In this regard, their proposal would require applicants to employ mandatory competitive-bid requirements and contract service to private operators as a condition for the receipt of the otherwise diminished transit funds.

From transit labor's point of view, the most devastating aspects of these proposals involve the termination of operating assistance and, most importantly, their attempt to once again call for the repeal of section 13(c) labor protections which for some 20 years have preserved our bargaining and job rights.

With respect to proposals to distribute a portion of the section 3 gas tax funds through the formula program, we caution the committee that such an approach should be explored only in the context of specific limits and guarantees to ensure maintenance of current program funding levels. As stated, additional general revenue and tax funds are needed, not a mere reshuffling of existing funds necessary to satisfy important program requirements.

With respect to the privatization and section 13(c) issue, the ATU has long opposed and continues to oppose efforts to increase the availability of Federal funds for the subcontracting of public transit service to private operators in competition with public transit authorities.

PRIVATIZATION GUIDELINES ARE OBJECTIONABLE

We find especially objectionable the recent January 1986 privatization guidelines by UMTA which appear to condition the release of transit funds on a finding that private for-profit operators play a larger role in the provision of mass transit service. This policy assumes without justification that it is in the public interest to support a vast array of new private operators providing not just adjunct services for the special needs of the transit disadvantaged but mainstream transit services operating in direct competition with established regional transit authorities.

The inevitable result of this approach is to weaken the structure of established regional systems and undermine their financial base and resources.

We also object to the attempt to require transit agencies to reexamine their existing service with the goal of contracting out certain route segments. Again, the most likely result would be the establishment of private providers in only the most lucrative or funds would yield a total national commitment of some $4 billion per year. That's a level which is reasonable given all reliable needs estimates and a fair assessment of how much more can be done at non-federal levels.

Compared to our proposal, the Administration's significant FY87 proposed cut, as well as that of the Senate Budget Committee, are clearly in the wrong direction. To summarize on funding: Mayors are fully aware of the economies necessary on the federal side of the ledger. Transit has been cut significantly. We hope, with a combination of freeze and greater resources from the existing gas tax increase, further cuts can be avoided or minimized.

Transit Highway Block Grant

The U.S. Conference of Mayors has given as much or more consideration to the Administration's Transit/Highway Block Grant as any group. Our Urban Transportation Conference subsidiary has examined it in detail during three separate meetings. There is not support among the nation's cities for this concept.

The flexibility of use incorporated into the block grant idea is to be commended. But city officials have focused on two key problems: first, it is inappropriate to attempt a fundamental revision of the transportation delivery mechanism at a time of declining resources and legitimate questions about federal commitment; secondly, the differences in approach, style, priorities and players between highways and transit are so severe that combining them into one pot would mean perpetual decision making difficulty, or, weighted decision making towards highway interests. One basic question must always be asked about radical changes in delivery mechanisms such as block grants: is the system substantially improved? In this case, we do not think so.

We have two suggested alternatives for the Subcommittee to consider: 1) move towards a "transit block grant" so that the simplicity and directness of another program under the Subcommittee's jurisdiction -- the Community Development Block Grant -- could be extended to the transit program; and 2) develop a demonstration program for a mobility block grant to determine on a small scale what models may be workable in this area before actually jeopardizing real mobility.

Program Design

There are several areas we would like to touch on in the field of program design:

Trust Fund Resources. Gas tax funds available for mass transit should be used in part for funding transit formula grants. Since 1982 the $1.1 billion gas tax program has funded all eligible communities. In 1986, the gas tax is capable of growing while the formula program funded by general revenues has sharply declined since 1982. A portion of the growth of the gas tax fund should be distributed on a formula basis to communities with transit needs. We hope to work with you to develop a precise approach.

Competitive Bidding. We support competitive bidding as a useful tool for the management of scarce resources. It is not new -- cities have used it in many ways for a long time. It also has a role to play in transit. Many cities do competitive bidding on aspects of transit maintenance. Others do competitive bidding on supplemental or specialized services. Competitive bidding will likely be a growing area of interest for city transportation leaders. We reject the Administrations suggestion that a fixed percentage of transit service should be open to competitive bidding by a fixed date, or its proposed mandate for private operator representation on transit boards. Competitive bidding and other aspects of public/private interaction must be allowed to grow and flourish based on local needs, conditions and factors. This Subcommittee can help by providing incentives, not coercion, by setting aside funds to assist cities in this area, or emphasizing the availability of additional funds for lower cost-per-passenger ratios. But on the whole, competitive bidding will become a major factor because it makes sense locally, not because it is a response to a federal carrot or stick.

State Control of Mid-Sized City Programs. UMTA law has traditionally accorded the Governor flexibility in the allocation of funds among mid-sized urban areas -- those between 50,000 and 200,000 in population. In actuality, those cities have always been direct UMTA guarantees without state funding pass through. However, late last year UMTA proposed that the states now control this program, causing considerable alarm in the scores of cities in this category. Those cities are in most cases fully experienced and capable of a direct relationship with UMTA without interference from states. We urge that language be developed to ensure that those cities which wish retain the direct federal city relationship.

Selection Criteria. Selection criteria for discretionary projects in a good idea. We would urge their adoption by the subcommittee, with the understanding that those criteria be sufficiently broad to incorporate such factors as economic development and environmental quality.

Efficiency and Funding Predictability. One of the most significant things UMTA can do is get the money out on time. For too long, grant applications have languished in the bureaucracy. The agency is making some preliminary steps in this direction. Much more can be done. The result will be a genuine improvement in program efficiency.

Interstate Substitution

This Subcommittee will need to authorize a level of funding to ensure that those cities which traded in Interstate Highway Segments for public transportation projects will be able to receive the value of those projects by the same year as the completion of the Interstate. We estimate about $350 million per year will meet these needs, FY87-91, assuming no further trade-ins. This need could be met with a combination of general fund appropriations and gas tax funds, and reinstatement of the cost escalator for these projects.

Increased Contributions from the Non-Federal Partners

Mr. Chairman, one of the most important messages I can bring to you today on behalf of our cities is the fact that our record has been good in recent years in raising fares, raising densely situated and traveled routes, thereby denying necessary revenue for the public providers committed to serving their community's broader transit needs.

Past experience demonstrates that competitive bidding of service contracts in the transit industry is unsuited to public needs for cost efficient and effective safe service.

Truly competitive conditions are often nonexistent. Further, they often represent an undesirable emphasis upon unfair wage competition between public and private enterprises and between union and nonunion operators.

The administration's assertions to the contrary, we've been unable to find supporting evidence for their frequent statements that private operators can provide city transit services at savings ranging from 20 to 60 percent. Such cost savings are clearly overstated and often nonexistent when the full cost of subcontracting is included in the calculations.

In fact, a recent 1985 report to be issued by the Advisory Committee on Intergovernmental Relations studying trends in the 1980's found no conclusive evidence that labor costs were necessarily higher on public than private operators.

In our testimony we have highlighted the experiences of the private operators in Westchester County and New Jersey where, in 1979 after several studies and careful analysis, they chose to go from a private to public statewide operation.

Senator **Hecht**. Your time is up. I'm not going to stop you but just try and summarize like the rest of them have.

Mr. **Molofsky**. I certainly will. Thank you.

We've highlighted in our testimony also the manner and the method in which UMTA is seeking to slow down and delay transit grants. We've cited a specific example involving Denver, CO, where they attempted not only to compel a local transit decision policy change affecting the choice of service providers but to intrude to our local labor contract negotiations and existing bargaining agreements.

Other ATU locals throughout the country have reported similar problems and similar efforts by UMTA to influence the local transit decisionmaking in collective bargaining matters. Yet the ATU sees nothing in the act, nothing in its legislative history, however, which would justify the Federal Government to play a dictatorial role in directing local decisionmaking in this manner. In fact, in December 1985, this Congress in its report accompanying the continuing resolution stated that the appropriate Federal policies in these areas should continue to be one of neutrality.

With respect to section 13(c), we are once again confronting an administration which seeks to perpetuate exaggerated and false claims that section 13(c) has been counterproductive to the efficient and effective delivery of transit service.

STUDIES SHOW UNION COSTS ARE NOT PROHIBITIVE

As set forth in our testimony, numerous studies over the last 10 years have failed to establish these alleged claims by administration and other industry officials. In our testimony we've highlighted the conclusion of several of those studies and would call those to your attention.

Similarly, these studies have failed to prove that 13(c) has given undue leverage to the unions at the bargaining table or unduly influenced the transit grant process. From the ATU's perspective, this has never been the case.

In recent testimony before this and other congressional committees, however, UMTA Adminstrator, Ralph Stanley, has sought to blame transit labor and the 13(c) protections particularly for stifling innovation within the industry. In our testimony we highlight the ATU's long-term support for the development and introduction of paratransit and other specialized transit concepts to respond to unique and developing community needs. We believe, as the grant process will show, that these concepts have been introduced in cities throughout the United States and have not been hindered in their introduction by application of the section 13(c) program. Those protections again have served to protect existing job rights and collective bargaining benefits for the employees providing that service.

Mr. Chairman, this record as a whole, including our most recent review of some 1,200 transit grants processed by the ATU over the last 2 years is a far cry from a showing that would justify any revision or repeal of the labor protective requirements of this statute. If they have worked, they have worked as Congress has declared they should work, to protect the bargaining and job rights from an adverse impact arising from the Federal program.

Once again, however, administration proposals constitute a radical anti-labor response based on false assertions which have been unsubstantiated in our view by those who have more carefully looked into the problem.

As this committee knows, we will not and cannot support any legislation which proposes to deny affected transit employees their rights to fair and equitable protective arrangements.

I would like to conclude as we began by saying that our union is committed to a new 4-year transit bill and to working in partnership with the Congress and the other State and local governments and the industry to develop a positive and progressive Transit Program to best serve our Nation's transit needs into the late 1980's and early 1990's.

We would be delighted at the end of our testimony to answer any questions you may have. Thank you.

[The complete prepared statement follows:]

STATEMENT OF

JAMES LA SALA, INTERNATIONAL PRESIDENT

AMALGAMATED TRANSIT UNION, AFL-CIO, CLC

ON

REAUTHORIZING LEGISLATION FOR FEDERAL MASS TRANSPORTATION PROGRAMS

BEFORE THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

U.S. SENATE

April 15, 1986

Mr. Chairman and members of the Committee:

My name is Robert A. Molofsky, and I serve as Legislative Director of the Amalgamated Transit Union, AFL-CIO, CLC. It is my pleasure to appear here on behalf of our International President James La Sala and to present our union's views on the programs and policies necessary to continue the Federal government's long-term commitment to serving the nation's transit needs.

The ATU represents approximately 160,000 public transit workers in the United States and Canada. Most of these employees work as bus drivers, maintenance and clerical personnel in the urban mass transit industry.

We appreciate the opportunity to appear before this committee to reaffirm our commitment to a strong federal mass transit program designed to support and stimulate transit initiates at the state and local levels. We appear here today with the full support of the AFL-CIO and its affiliated organizations representing rail, bus and other transit workers.

Mr. Chairman, the ATU believes in the national transportation programs which the Congress, and in particular this Committee has put together since 1964 as most recently revised by the Surface Transportation Assistance Act of 1982 (STAA). The program has worked well and its benefits are visible in almost every city throughout the country.

At the time the STAA Act was under review we expressed our support for the .01c increase in the federal fuel tax

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dedicated to mass transit, and a strong and adequately funded block grant program providing revenues for both capital and operating assistance. Today, we again endorse these programs which remain essential to the continued expansion and development of urban and rural communties throughout the country.

As discussed below we categorically reject Administration and other proposals which would radically alter the present program structure. Rather, with the inclusion of several features designed to "fine-tune" and improve the current program's operation, we strongly support a four-year extension of the STAA, and pledge to you our full efforts to make this a reality in 1986.

We believe that the 1986 legislation should provide for: a) a minimum 4-year extension of the Section 9 formula grant program providing for both capital and operating assistance at current funding levels; b) extension of the Section 3 discretionary capital grant program with assurances that the full amount generated by the dedicated gas tax is equitably spent on transit needs; c) renewal of the 3 for 2 capital/operating trade-in provision to continue the needed funding flexibility at the local level in the use of available Federal funds; and d) multi-year funding commitments to improve project implementation, planning and savings. Finally, because of expanding efforts by the UMTA to impermissively intrude into local transit decision making and collective bargaining matters, affecting the method and means by which transit service shall be provided, we are proposing specific amendments to prevent the application of Federally mandated privatization or competitive bid requirements to the distribution of transit grant funds.

Passage of a new four year bill with these improvements would properly carry forward the long standing Federal commitment to serving our nation's transit needs.

Unfortunately, Mr. Chairman, the Administration's budget and legislative proposals are seriously flawed and are designed to undermine the nation's commitment to the transit dependent. Their proposed FY'87 budget released on February 5, 1986, calls for an unprecedented 67% reduction in federal transit funds! It seeks to combine some $1.2 billion transit program funded by the .01c gasoline tax with $2.2 billion in revenue from the highway trust fund into a combined mass transit highway block grant program to be administered at the state level, with no guarantee that any funds from this combined program would be distributed to mass transit projects!

In addition, the Administration's proposal, while drastically cutting federal transit aid, seeks to dictate to cities throughout the country the methods by which public transit service should be provided. In this regard, it would require grant applicants to employ mandatory competitive bidding requirements and contract out a fixed percentage of their public transit service to private operators as a condition for the receipt of the otherwise diminished transit funds.

Other devastating aspects of these proposals involve the termination of federal operating assistance for all major cities while cutting such aid in half for the smaller cities and rural areas. Most significantly, the bill would repeal the Section 13(c) labor requirements which have for some 20 years preserved the job and collective bargaining rights of over 200,000 transit employees throughout the United States.

Without question, these proposals would have a drastic effect on transit agencies throughout the country which depend heavily on federal assistance and other grant subsides for their operations. Before the year's end such cuts would lead to severe service reductions and total system shut downs causing economic disruption and loss of mobility by those dependent on public transportation for their jobs and social services.

Current industry estimates indicate that some $8 billion is needed on an annual bases to satisfy basic capital investments to maintain our existing transit systems. State and local assistance is rising, but individual localities are hard pressed to meet the necessary cost of transit development. We, therefore, urge that present funding levels be maintained to the maxiumum extent possible to limit the burden increasingly being placed on state and local governments and transit users.

With respect to proposals to distribute a portion of the Section 3 gas tax funds through the formula programs, we caution the Committee that such approaches should be explored only in the context of specific limits and guarantees to insure maintainance of current program funding levels including operating assistance. As stated, additional general revenue and tax funds are needed not a mere reshuffling of existing funds necessary to satisfy important program requirements.

Because of the importance we place on the operating assistance program we strongly disagree with the spending priorities established by the Senate Budget Committee which call for a 20% reduction in federal operating assistance. While recognizing that additional cuts may be necessary to overcome a rising deficit, we support and continue to advocate alternative budgets that would allow the Federal transit programs to be maintained at or near the FY'86 levels.

Mr. Chairman, two issues deserve special mention before this committee: UMTA's expanding efforts by administrative fiat and now through its legislative proposals to mandate the use of private providers in the provision of public mass transportation services, and its continuing efforts to repeal the Section 13(c) employee protection provisions of the Act.

The ATU opposes efforts to increase the availability of federal funds for the subcontracting of public transit service to private operators in competition with the public transit authorities. We find especially objectionable the recent January 1986 Privatization Guidelines by UMTA which appears to condition the release of certain transit funds on a finding that private for profit operators play a larger role in the provision of mass transit services. This policy assumes, without justification, that it is in the public interest to support a vast array of new private operators providing not just adjunct services for the special needs of the transit disadvantaged such as the elderly and the handicapped and other unique community needs, but mainstream transit services operating in direct competition with established regional transportation authorities. The inevitable result of this approach is to weaken the structure of the established regional systems, and undermine their financial base and resources.

We also object to the policy's attempt to require transit agencies to reexamine their existing service with the goal of contracting out certain route segments. The most likely result would be the establishment of private providers on only the most lucrative or densely situated and traveled routes; thereby denying necessary revenue for the public providers committed to serving their communities broader transit needs.

Past experience demonstrates that competitive bidding of service contracts in the transit industry is unsuited to public needs for cost efficient and effective service. Truly competitive conditions are often non-existent. Further, they often represent an undesirable emphasis upon unfair wage competition between private and public enterprises and between union and non-union labor.

Administration assertions to the contrary, we have been unable to find supporting evidence for their frequent statements that private operators can provide city transit services at savings ranging upward of 20 to 60%. Such cost savings are clearly overstated and often nonexistent when the full cost of subcontracting is included in the calculations. In fact, the recent 1985 report to be issued by the Advisory Commission on Intergovernmental Relations studying "Transit in the 1980's," found no conclusive evidence that labor costs were necessarily higher on public than private systems.

The experience of public managers of subcontracted private operations has revealed a number of other equally serious problems. In Westchester County, New York, for example, where 100% of the county's transit service is privately subcontracted, a comprehensive study showed the overall cost differential between public and private operations to be miniminal. Problems included the private operators clear preference for the most lucrative routes; their failure to provide uninterrupted service; their lack of concern for passenger complaints; difficulty in monitoring, administrating and supervising the service contracts; difficulty in monitoring fare collections; as well as inadequate controls over the quality and safety of the service provided. In addition, there was a long term loss of competition as to larger companies absorbed the smaller or drove them out of business, leaving the county captive to the overreaching demands of the largest operators.

Similar problems were confronted in New Jersey, where the 1979 decision by the New Jersey Department of Transportation to convert to public ownership rather than to continue state wide assistance to numerous private carriers was premised upon a comprehensive report outlining a multitude of deficiencies of subsidizing private operators intent upon maximizing their profits.

Increasingly, however, over the past 12 months many of our locals throughout the country have reported to us that their authorities are being directed by UMTA to contract out specific service, despite their own prior decision to retain the work directly under their jurisdiction. Specific grants are being held up pending resolution of these policy issues, issues we believe UMTA has no right to raise.

In processing a recent grant application involving Denver, Colorado, the UMTA issued a series of directives seeking to restrict distribution of future funding because the local transportation policy plan failed to provide for the contracting of certain commuter routes to private operators at a level deemed appropriate by the federal agency. In these directives, UMTA even suggested circumvention of existing collective bargaining agreements through the establishment of a new umbrella agency in order to implement the contracting of such services to private operations.

We see nothing in the act, nor its legislative history which would justify the federal government to play a dictatorial role in directing local decision making as to the selection of service providers, the application of competitive bid standards, or the level of private involvement in transit operations.

The ATU is fully persuaded that decisions as to the choice of service providers and the application of competitive bidding requirements must be left to those who live and work in the metropolitan areas where the service is provided.

The ATU recognizes that the Act encourages the use of private operators to the maximum extent feasible. We strongly disagree however, that these provisions justify such unprecedented intrusion into local decision making. Indeed, the legislative history underlining these provisions clearly demonstrates the intent of Congress that UMTA should take a policy neutral position on the choice of service providers. In fact, the Congress recently reaffirmed this policy when the Denver initiative and other similar UMTA actions were brought to its attention. Thus, the December 1985 Congressional report accompanying the FY'86 continuing resolution contains a statement of the conferees that "the federal policy...relating to the choice of service providers is one of neutrality. ...conditioning the release, allocation or level of federal transit grant funding on a showing by applicants of a certain level of involvement of private sector providers...is not consistent with the...Act...".

Now in its legislative proposals the Administration seeks congressional authority to continue this unprecedented intrusion into what is a proper local prerogative. We call upon this committee to reject this approach as unsound Federal intrusion into state and local decision making.

With respect to 13(c), we are again confronting an administration which seeks to perpetuate exaggerated and false claims that Section 13(c) has been counter productive to the efficient and effective delivery of transit service.

We are compelled, therefore, as we have in the past, to state before this committee, that all those who have looked into these matters including the Department of Transportation, the Department of Labor, the General Accounting Office, the House Oversight and Investigation Subcommittee of the House Public Works Committee, and most recently the 1984/85 study by the Advisory Committee on Intergovernmental Relations, have found that:

a) Transit labor is not overpaid compared to other public employees, and
b) that the Section 13(c) program as administered by the Department of Labor has neither prevented paratransit rights, nor the utilization of other specialized public and private transit operations.

Similarly, these studies have failed to prove that the Section 13(c) job protections have given undue leverage to the unions and the collective bargaining and the transit grant process. This has never been the case! In fact, the statistical evidence gathered over the last ten years by this union, APTA and other independent investigations shows that while public transit wages like other public and private wages in general have increased in nominal dollar terms, they have decreased in real dollar terms. Further, the evidence shows that over the last ten years, as transit labor has engaged in responsible collective bargaining providing improvements for its members, productivity throughout the industry has also improved and has improved significantly.

It is also note worthy that a December 1981 study funded by the Department of Transportation entitled "Labor and Management Relationships and Issues in Mass Transit" (contract number DOT-OS-50116) concluded that:

> "A few critics of Section 13(c) have contended that the Section could be used by the union as a lever to obtain favorable collective bargaining outcomes. We examined this allegation as to the extent that Section 13(c) agreements to effect: the climate of negotiations; terms of labor contract; and procedures in reaching labor settlements. For the most part, respondents believe that Section 13(c) did not measurably effect the collective bargaining atmosphere, and only one property reported that specific language was negotiated into the labor contract to reflect Section 13(c) considerations. The relative lack of findings strongly suggest that 13(c) has little current impact on the terms of the labor contract..." Study pages 223-4.

Clearly, the major impact and indeed the intended purpose of Section 13(c) has been to protect the process of collective bargaining and job rights for employees within the industry.

In recent testimony before this and other Congressional Committees UMTA Administrator, Ralph Stanley has sought to blame transit labor and the 13(c) protections in particular for stifling innovation within the industry. Here again, the facts belie this position.

The ATU has long been on public record in support of the Urban Mass Transportation Administration's efforts to introduce paratransit concepts and to promote new forms of urban mass transportation as a useful part of the total transportation network. We have not opposed the funding of

Senator HECHT. Thank you very much.

Mr. Art Luby, and please for the record since you're not part of this please give your job designation and who you represent.

STATEMENT OF ARTHUR LUBY, REPRESENTING JOHN LAWE, INTERNATIONAL PRESIDENT, TRANSPORT WORKERS UNION OF AMERICA

Mr. LUBY. My name is Arthur Luby and I'm here representing John Lawe who is the international president of the Transport Workers Union of America. I am general counsel for that union.

In order to expedite things I'll ask that my written testimony be submitted for the record and I'll just make several points.

First, in relation to the discussion of section 13(c), I don't know why I should be surprised but I always am to see it dredged up as a problem every year.

The two major transit unions are sitting in front of you. No one has documented a case in which we have improperly used section 13(c). More than that, while at the same time declaring the desire for transit innovation, the only way you're going to get that innovation is through the participation of transit labor. Transit is a labor intensive operation.

INNOVATIVE CONTRACT AT HOUSTON

Probably the most innovative contract we have is down in Houston where we have a number of productive incentives written into the contract. They have worked and based on some of the assertions that have been made throughout three hearings, I'd like the record to be left open so I can submit that contract to your committee.

Senator HECHT. Without objection.

[The following information was subsequently submitted for the record:]

such paratransit services as shared-ride taxis, vanpools and car pools, subscription services and user side subsidies, provided only that the rights and interests of our members under Section 13(c) are properly protected before these services are operated. We look with particular favor upon any form of paratransit which promises to improve the quality and reach of our traditional transit systems and services. We believe, however, these conventional linehaul systems which today carry over 95% of all transit riders still are, and continue to lie at the heart of any effective regional system of urban mass transportation.

Our own review of some 1200 transit grants processed by the ATU over the last two years indicates that no paratransit, vanpool or other specialized transit project failed to receive funding because of the 13(c) requirements. In fact, since January 1984 over 150 paratransit and vanpool projects were approved with negotiated Section 13(c) agreements in such varied cities as Santa Clara, California; Boston, Brockton and New Bedford, Massachusetts; Kenosha, Wisconsin; Trenton and Paterson, New Jersey; as well as Decatur, Illinois and Hammond, Indiana. Additional projects supported dozens of other existing specialized transit services, none of which were denied funding because of 13(c) issues.

Mr. Chairman, this record is far cry from a showing that would justify any revision or repeal of the labor protective requirements of the Statute. Once again, these proposals constitute a radical anti-labor response based on false

assertions long advanced by those segments of the industry and various state and local officials hostile to public employee bargaining which have never been substantiated by repeated studies undertaken in an effort to prove such claims. As this Committee knows, we can not and will not support any legislation which proposes to deny affected transit employees their rights to fair and equitable protective arrangements.

In conclusion, we would stress a) the urgent need for a 4 year extension of the current grant program, providing for both capital and operating assistance at or near current funding levels and; b) the necessity to place clear limits on UMTA's efforts to unlawfully intrude into state and local decision making as to the method and means employed by localities for provisions of mass transit services. Finally, we call upon this committee to once again reject legislative proposals designed to undermine our long standing employee protection, collective bargaining and other job rights.

Thank you for consideration of our views.

We would be pleased to answer any questions you may have.

EXCERPT FROM THE COLLECTIVE BARGAINING AGREEMENT
BETWEEN
THE HOUSTON TRANSIT AUTHORITY
&
THE TRANSPORT WO[illegible]NION OF AMERICA

APPENDIX A (WAGES)

I. Across-the-Board Increase Effective August 1, 1984. All employees employed prior to August 1, 1984, and not in a contractual wage progression on August 1, 1984, will receive a 4.5% wage increase in their base rate. If an employee employed prior to August 1, 1984, is in an existing contractual wage progression (under the 1982-1984 labor agreement), as of August 1, 1984, he will remain in such, with each step of the progression increasing by 4.5% effective August 1, 1984. The base rate used to calculate these new wages and any across-the-board increases provided in Appendix A of this labor agreement will not include any prior non-rolled in merit or performance increases.

II. Across-the-Board Increase Effective August 1, 1985 All employees employed prior to August 1, 1985, and not in a contractual wage progression on August 1, 1985, will receive a 3% wage increase in their base rate. If an employee employed prior to August 1, 1985, is in an existing contractual wage progression as of August 1, 1985, he will remain in such, with each step of the progression increasing by 3.0% effective August 1, 1985. The base rate used to calculate these new wages and any across-the-board increases provided in Appendix A of this labor agreement will not include any prior non-rolled in merit or performance increases.

III. Wage Progressions

A. All employees in a wage progression under the 1982-1984 labor agreement will remain in such progression. Cleaners hired on or after August 1, 1982, will remain in the applicable wage progression (decreased at each step as provided in the 1982-1984 labor agreement) and, upon completing such, will receive the top cleaners rate of pay after subtracting $2.00 per hour from such.

B. Employees hired on or after August 1, 1982, and employed in all job classifications except cleaners will be paid on the following basis:

First 0 through 6 months of employment: 75% of the regular rate in effect for the applicable job classification.

7 through 12 months of employment: 79% of the regular rate in effect for the applicable job classification.

13 through 18 months of employment: 83% of the regular rate in effect for the applicable job classification.

19 through 24 months of employment: 87% of the regular rate in effect for the applicable job classification.

25 through 30 months of employment: 91% of the regular rate in effect for the applicable job classification.

31 through 36 months of employment: 95% of the regular rate in effect for the applicable job classification.

After 36 months of employment: 100% of the regular rate in effect for the applicable job classification.

C. Employees hired on or after August 1, 1982, as cleaners will be paid on the following basis:

First 0 through 6 months of employment: 75% of the regular rate in effect for cleaners after subtracting $2.00/hour from such rate.

7 through 12 months of employment: 79% of the regular rate in effect for cleaners after subtracting $2.00/hour from such rate.

13 through 18 months of employment: 83% of the regular rate in effect for cleaners after subtracting $2.00/hour from such rate.

19 through 24 months of employment: 87% of the regular rate in effect for cleaners after subtracting $2.00/hour from such rate.

25 through 30 months of employment: 91% of the regular rate in effect for cleaners after subtracting $2.00/hour from such rate.

31 through 36 months of employment: 95% of the regular rate in effect for cleaners after subtracting $2.00/hour from such rate.

Over 36 months of employment: 100% of the regular rate in effect for cleaners after subtracting $2.00/hour from such rate.

IV. System Wide Performance Cash Payments

A. All employees employed by the Authority during the entire period August 1, 1984, through January 31, 1985, will be eligible for the following cash payments:

(1) If on time performance during the period August 1, 1984, through January 31, 1985, is 94.5%: .50% of the employee's straight time earnings for that period.

(2) If on time performance during the period August 1, 1984, through January 31, 1985, is 95%: .75% of the employee's straight time earnings for that period. (Part (1) of this provision would not apply in this case.)

(3) If on time performance during the period August 1, 1984, through January 31, 1985, is 96%: 1% of the employee's straight time earnings for that period. (In this event, neither Part (1) nor Part (2) of this section would apply.)

(4) If during the period August 1, 1984, through January 31, 1985, the average miles between road calls is 4,300 miles: .50% of the employee's straight time earnings for that period.

(5) If during the period August 1, 1984, through January 31, 1985, the average miles between road calls is 4,500 miles: .75% of the employee's straight time earnings for that period. (Part (4) of this provision would not apply in this case.)

(6) If during the period August 1,1984, through January 31, 1985, the average miles between road calls is 4,750 miles: 1% of the employee's straight time earnings for that period. (In this event, neither Part (4) nor Part (5) of this section would apply.)

(7) If during the period August 1, 1984, through

January 31, 1985, the average number of accidents per 100,000 revenue miles is 2.9: .50% of the employee's straight time earnings for that period.

(8) If during the period August 1, 1984, through January 31, 1985, the average number of accidents per 100,000 revenue miles is 2.8: .75% of the employee's straight time earnings for that period. (Part (7) of this provision would not apply in this case.)

(9) If during the period August 1, 1984, through January 31, 1985, the average number of accidents per 100,000 revenue miles is 2.7: 1% of the employee's straight time earnings for that period. (In this event, neither Part (7) nor Part (8) of this section would apply.)

(10) Any of the above cash payments which are paid will be paid on March 1, 1985, and will not become a part of any employee's base rate.

B. All employees employed by the Authority during the entire period February 1, 1985, through July 31, 1985, will be eligible for the following cash payment:

(1) If on time performance during the period February 1, 1985, through July 31, 1985, is 94.5%: .50% of the employees straight time earnings for that period.

(2) If on time performance during the period February 1, 1985, through July 31, 1985, is 95%: .75% of the employee's straight time earnings for that period. (Part (1) of this provision would not apply in this case.)

(3) If on time performance during the period February 1,1985, through July 31,1985, is 96%: 1% of the employee's straight time earnings for that period. (In this event, neither Part (1) nor Part (2) of this section would apply.)

(4) If during the period February 1, 1985, through July 31, 1985, the average miles between road calls is 4,300 miles: .50% of the employee's straight time earnings for that period.

(5) If during the period February 1,1985, through July 31, 1985, the average miles between road calls is 4,500 miles: .75% of the employee's straight time earnings for that period. (Part (4) of this provision would not apply in this case.)

(6) If during the period February 1, 1985, through July 31, 1985, the average miles between road calls is 4,750 miles: 1% of the employee's straight time earnings for that period. (In this event, neither Part (4) nor Part (5) of this section would apply.)

(7) If during the period of February 1, 1985, through July 31, 1985, the average number of accidents per 100,000 revenue miles is 2.9: .50% of the employee's straight time earnings for that period.

(8) If during the period Februry 1, 1985, through July 31, 1985, the average number of accidents per 100,000 revenue miles is 2.8: .75% of the employee's straight time earnings for that period. (Part (7) of this provision would not apply in this case.)

(9) If during the period February 1, 1985, through July 31, 1985, the average number of accidents per 100,000 revenue miles is 2.7: 1% of the employee's straight time earnings for that period. (In this event, neither Part (7) nor Part (8) of this section would apply.)

(10) Any of the above cash payments which are paid will be paid on September 1, 1985, and will not become a part of any employee's base rate.

C. All employees employed by the Authority during the entire period August 1, 1985, through January 31, 1986, will be eligible for the following cash payments:

(1) If on time performance during the period August 1, 1985, through January 31, 1986, is 95%: .50% of the employee's straight time earnings for that period.

(2) If on time performance during the period August 1, 1985, through January 31, 1986, is 96%: .75% of the employee's straight time earnings for that period. (Part (1) of this provision would not apply in this case.)

(3) If on time performance during the period August 1, 1985, through January 31, 1986, is 97%: 1% of the employee's straight time earnings for that period. (In this event, neither Part (1) nor Part (2) of this section would apply.)

(4) If during the period August 1, 1985, through January 31, 1986, the average miles between road calls is 4,500 miles: .50% of the employee's straight time earnings for that period.

(5) If during the period August 1, 1985, through January 31, 1986, the average miles between road calls is 4,750 miles: .75% of the employee's straight time earnings for that period. (Part (4) of this provision would not apply in this case.)

(6) If during the period August 1, 1985, through January 31, 1986, the average miles between road calls is 5,000 miles: 1% of the employee's straight time earnings for that period. (In this event, neither Part (4) nor Part (5) of this section would apply.)

(7) If during the period August 1, 1985, through January 31, 1986, the average number of accidents per 100,000 revenue miles is 2.9: .50% of the employee's straight time earnings for that period.

(8) If during the period August 1, 1985, through January 31, 1986, the average number of accidents per 100,000 revenue miles is 2.8: .75% of the employee's straight time earnings for that period. (Part (7) of this provision would not apply in this case.)

(9) If during the period August 1, 1985, through August 31, 1986, the average number of accidents per 100,000 revenue miles is 2.7: 1% of the employee's straight time earnings for that period. (In this event, neither Part (7) nor Part (8) of this section would apply.)

(10) Any of the above cash payments which are paid will be paid on March 1, 1986, and will not become

a part of any employee's base rate.

D. All employees employed by the Authority during the entire period February 1, 1986, through July 31, 1986, will be eligible for the following cash payments:

(1) If on time performance during the period February 1, 1986, through July 31, 1986, is 95%: .50% of the employee's straight time earnings for that period.

(2) If on time performance during the period February 1, 1986, through July 31, 1986, is 96%: .75% of the employee's straight time earnings for that period. (Part (1) of this provision would not apply in this case.)

(3) If on time performance during the period February 1, 1986, through July 31, 1986, is 97%: 1% of the employee's straight time earnings for that period. (In this event, neither Part (1) nor Part (2) of this section would apply.)

(4) If during the period February 1, 1986, through July 31, 1986, the average miles between road calls is 4,500 miles: .50% of the employee's straight time earnings for that period.

(5) If during the period February 1, 1986, through July 31, 1986, the average miles between road calls is 4,750 miles: .75% of the employee's straight time earnings for that period. (Part (4) of this provision would not apply in this case.)

(6) If during the period February 1, 1986, through July 31, 1986, the average miles between road calls is 5,000 miles: 1% of the employee's straight time earnings for that period. (In this event, neither Part (4) nor Part (5) of this section would apply.)

(7) If during the period February 1, 1986, through July 31, 1986, the average number of accidents per 100,000 revenue miles is 2.9: .50% of the employee's straight time earnings for that period.

(8) If during the period February 1, 1986, through July 31, 1986, the average number of accidents per 100,000 revenue miles is 2.8: .75% of the employee's straight time earnings for that period. (Part (7) of this provision would not apply in this case.)

(9) If during the period February 1, 1986, through July 31, 1986, the average number of accidents per 100,000 revenue miles is 2.7: 1% of the employee's straight time earnings for that period. (In this event, neither Part (7) nor Part (8) of this section would apply.)

(10) Any of the above cash payments which are paid will be paid on September 1, 1986, and will not become a part of any employee's base rate.

V. Individual Performance Cash Payments

A. All employees employed during the entire period August 1, 1984, through July 31, 1985, will be eligible for the following cash payments:

(1) Employees who have worked every workday during the period August 1, 1984, through July 31, 1985, except for permitted vacation days and

Mr. LUBY. And the fact is, if we didn't have 13(c), we simply would not have had the right to bargain that contract and none of the good results which have benefited for both the riding public in Houston and our own members would have occurred.

Second, as Robert said, and I concur completely in his statement, the present private sector participation policy is in my judgment beyond UMTA's legal authority. Right now we have several cities which are awaiting operating assistance money because they have not sufficiently proved that they've given adequate opportunity for private sector entrepreneurs to supply basic transit services. One of those cities is San Francisco.

I have no idea what adequate opportunity or adequate proof would be to show that you've given an ample opportunity for the private sector and that criteria has never been set forth in the guidelines. So I think it is a vague requirement, a laborious requirement, and one which is beyond the Administrator's legal authority.

Finally, to make two brief points in closing, I don't see any evidence to support a presumption that you can save money by contracting out. I think if you reviewed the history of municipal contracting it would be less than inspiring.

Second, I agree that I would like to see State and local legislatures play a larger role in funding of transit, although not in lieu of Federal assistance. However, their capacity to do that will certainly be circumscribed if we eliminate the State and local tax deduction.

[The complete prepared statement follows:]

In conclusion, I wish to thank this Committee for the integral role it has played in developing transit service. In my judgment, it would be a dreadful mistake to reverse the major improvements which have been made in urban transit service in favor of a wholesale privatization policy which failed three decades ago and has failed wherever it has been tried in this country.

Senator HECHT. Thank you very much.

According to the testimony submitted by the American Association of State Highway and Transportation Officials, practically every analysis of the transit industry has noted rapid increases in labor costs and declining productivity. Yet you maintain there is no proof of this assertion.

Can you comment on this.

LEAN YEARS FOR TRANSIT EMPLOYEES

Mr. LUBY. Let me make the first answer to that. I think that if you review all of our contracts you would find that our wage increases have been less than inflation and in fact in several cases we have had a decrease in wages. These have been very lean years for transit employees and I think any person objectively assessing the industry would agree.

The second thing is this issue has already been discussed back 3 years ago. The House Oversight Committee issued a report in which they were very clear that transit wages are not out of line with other public sector employees and in fact since that time, which was 1982, transit wages—the rate of transit wage increase has gone up less than the private sector and for the most part less than other public sector employees.

Mr. MOLOFSKY. I would agree and add only that I believe that productivity in the industry has substantially increased and I would urge you to look at the experience over the last 5 years in that regard. I think many of the earlier studies on transit wages and even productivity had as their timeframe the early 1970's through the end of that decade.

But those who have most recently looked at the program and how it's worked in the late 1970's to the present have found, as APTA in its own statistical reviews that are to be submitted before this committee has shown, productivity has increased in almost every measure over the last 5 years and will continue to do so. Transit labor takes a very responsible position at the bargaining table and will continue to do so.

Senator HECHT. Would you be willing to agree to some correlation of labor rates with productivity improvements and available funding?

Mr. MOLOFSKY. No; I think you have to understand that the collective bargaining process has to proceed independently of the Federal Transit Program. It is a fundamental principle of labor policy in this country that decisions as to collective bargaining matters are made at the bargaining table and we would not support any connection or linkage between the Federal program and local decisionmaking in bargaining.

Mr. LUBY. I would agree with that but I would add this, as at the local bargaining table we have agreed to productivity incentives with local management. We're certainly not willing to do that with the administrator in Washington, DC, because we don't believe that's his role, but as a matter of setting down a local term and condition of employment we're certainly willing to do that or consider it when we feel it's appropriate.

Senator HECHT. If that's a local decision, why do we have section 13(c)?

Mr. LUBY. Because without it there would be no collective bargaining. For example, in that case I gave you without section 13(c), 13(c) responds to a problem that's created by the Federal Government. The transit in the locality would have been a private operator without the Federal assistance.

Mr. MOLOFSKY. I would add to that by saying that 13(c) protects the process of collective bargaining. It doesn't dictate specific results at the local negotiations. And what we have long fought for and the Congress has approved year after year is the right and opportunity for the labor unions representing their employees to meet with management and to negotiate collective bargaining agreements.

The section 13(c) arrangement guarantees that that process will take place. It doesn't control the outcome.

Senator HECHT. Don't the local officials and municipalities have their own laws?

Mr. MOLOFSKY. In some States you have State collective bargaining laws. You have about 36 States that have collective bargaining laws in one form or another and in those remaining States you have none. In fact some States have outlawed or prevented collective bargaining from taking place.

Senator HECHT. Mr. Luby, you wanted to say something?

Mr. LUBY. Yes; I would also add that we don't say that the Federal Government is without any concern for the terms and conditions of employment negotiated at the collective bargaining table. What we are saying is that the content of the collective bargaining agreement is something to be negotiated locally and that's not anything that by the statutes or by experience the Urban Mass Transit Administrator would have any expertise in. It's a traditional principle that nobody from the outside dictates what happens in a collective bargaining agreement and if, as you say, we were to agree to something like that, would the Administrator also be willing to supply us with a guaranteed minimum?

Senator HECHT. Let's go on. On the one hand, each of you has stated opposition to the conditioning of Federal transit assistance on certain levels of private sector involvement. Yet you continue to defend and even want to strengthen the union position. How do you rationalize this position?

NEED TO RETAIN COLLECTIVE BARGAINING RIGHTS

Mr. Molofsky. I'm not sure what you mean in terms of strengthening the union's position. Our legislative proposal would seek to retain the existing section 13(c) collective bargaining rights.

With respect to the conditioning of grants on showing of private participation or on a fixed level of competitive bid requirements, our position is that if there are indeed short- or perhaps long-term merits to those proposals, which we question, then those decisions should be made at the State and local level by the decisionmakers closest to the communities being served and not by the Federal Government.

Senator Hecht. Do you agree?

Mr. Luby. I would agree with that.

Senator Hecht. All right. In opposing increased private sector involvement of providing transit assistance are you denying potential jobs for your members employed in the private sector?

Mr. Luby. Let me try that one first.

Senator Hecht. OK.

Mr. Luby. First, we didn't say that we opposed private sector involvement in mass transit. In New York about 20 percent of the service is contracted out. There are subcontracts all over the place.

What we said was that we opposed the Federal Government mandating contracting out or a certain level of contracting out as a condition of Federal assistance because we don't see how that could possibly be a rational Federal policy or how you could come to a certain level which maximized resources.

Second, we oppose mandatory privatization because it does not give us an opportunity to properly compete for work which we believe we should have an opportunity to compete for. And the result of policies like that has not been an enhancement of services but, again as I point out in my testimony, the accumulation of low wage private operators on heavily populated city routes.

Mr. Molofsky. I would add by saying that the question of privatization is not simply for the unions one of jobs. It's a question of what is appropriate transit policy.

And the unions, as has the industry, in looking at this issue over the last 20 years has concluded that when the transit industry had an overwhelming private sector component to it it didn't work. It didn't work for the many reasons and for the many problems that were described in Westchester in terms of administrative controls, service controls, quality controls, and safety.

What we are saying is that if decisions are now going to be made to somehow bring back private involvement, that it should be done at the local level in a way that embraces all of those service concepts so that the community and the riders are well served.

We believe that our members on public transit systems operating on regional transit authorities with close control by the public officials is best situated to respond to community needs.

We don't think that occurs and could occur if you have a variety of fragmented operators, even under these contracts that people have been touting as being effective ways of controlling service. It just doesn't work.

Mr. Luby. Let me just add one more thing to that. You inquired as to whether or not we're depriving our members of work opportunities.

We are looking out, I believe, for the long-range interests of our membership. The Transport Workers Union represents a number of private operators, as does the ATU, but it's our conclusion based on the previous experience going back to 20 years ago when private transit service failed that if we go this route we will suffer a net loss in jobs because gradually you will find the private sector operators going out of business and populated only on heavily serviced routes and the basic service concepts that Robert was discussing will disappear and we will have a net loss in jobs.

Senator Hecht. Thank you both. We are right on target as far as time is concerned. I appreciate your short comments.

We are going to adjourn for today. And tomorrow at 9:30 we will resume our hearings.

[Whereupon, at 11:50 a.m., the hearing was recessed, to be reconvened at 9:30 a.m., Wednesday, April 16, 1986.]

[Responses to written questions of Senators Heinz, D'Amato, Mattingly, and Sasser follow:]

three (3) or less excused absences: .50% of 2,080 straight pay hours.

(2) Employees who worked at least 1,800 hours during the period August 1, 1984, through July 31, 1985, and who had no on-the-job injuries during such period: .50% of 2,080 straight pay hours.

(3) Any of the above cash payments will be paid on September 1, 1985, and will not become a part of any employee's base rate.

B. All employees employed during the entire period August 1, 1985, through July 31, 1986, will be eligible for the following cash payments:

(1) Employees who have worked every workday during the period August 1, 1985, through July 31, 1986, except for permitted vacation days and three (3) or less excused absences: .50% of 2,080 straight pay hours.

(2) Employees who worked at least 1,800 hours during the period August 1, 1985, through July 31, 1986, and who had no on-the-job injuries during such period: .50% of 2,080 straight pay hours.

(3) Any of the above cash payments will be paid on September 1, 1986, and will not become a part of any employee's base rate.

APPENDIX B

I. Vehicle Maintenance

Air Conditioning Repair	A & B
Transmission Rebuild	A & B
Engine Rebuild	A & B
General Purpose Mechanic	A, B & C
Bus Inspector	A, B & C
Bus Electrical Repair	A, B & C
Body Repair	A, B & C
Unit Repair	A, B & C
Cleaner	

The Master Mechanic classification has been phased out. Employees who are currently paid a master mechanic rate will continue to receive such to the extent and as indicated in the previously settled grievance covering the issue.

II. Facility Maintenance (Building & Grounds)

Building and Ground Maintenance	A and B

III. Storeroom

Leaderman
Storeroom Attendant

IV. Public Facilities Maintenance

Public Facilities Maintenance	A & B

V. Scheduling Department

Schedule Maker (After 24 months)
Schedule Clerk (After 12 months)
Schedule Clerk (0 - 12 months)
Schedule Clerk/Typist
Traffic Checker
Schedule Typist

TESTIMONY OF THE TRANSPORT WORKERS UNION OF AMERICA ON URBAN MASS TRANSIT ASSISTANCE BEFORE THE SENATE BANKING COMMITTEE

Good morning, Mr. Chairman. My name is John E. Lawe. I am International President of the Transport Workers Union of America, AFL-CIO (TWU). TWU represents approximately 50,000 urban transit workers in cities from New York to San Francisco. Obviously, our membership has an enormous stake in improvement of mass transit service and we earnestly desire to contribute to such improvement.

This year we are again considering reauthorization of a Comprehensive Surface Transit Assistance Act. The 1982 Act, in my judgment, was crucial to the survival of mass transit in the first half of this decade. The form the Act takes and the level of assistance it will provide after this years deliberations will be no less crucial. The TWU strongly supports continuation of a strong urban transit assistance program, along the lines of the program adopted in 1982.

In response to the Committee's Hearing Notice, in discussing the form on any new Surface Transit Assistance Act should take, I will focus on three basic issues: "privatization" of urban transit service, the need for operating assistance, and the labor protection question--i.e. 13(c).

Privatization

At the outset, it must be stressed, that we are not writing on a blank slate in relation to the privatization question. Late last year, the Urban Mass Transit Administration released comprehensive guidelines which, in essence, compel a Transit Authority to prove to UMTA, as a condition of federal assistance, that they gave adequate opportunity to private sector enterpreneurs to bid on and perform basic transit services. What constitutes "adequate opportunity" is quite beyond me. Despite this, badly needed federal grant money in major cities such as San Francisco, is being held up until the Authority can prove that work that our people have performed for years should continue to be performed by them, instead of an outside operator. This is not only bad policy, it is beyond UMTA's legal authority.

The TWU and its members deeply resent the presumption implicit in the guidelines, that the private sector can do anything better than public workers. We are aware of no successful enterprise which presumes as a matter of course that an outside contractor can do its own work better.

Moreover, it is simply not the case that private sector enterpreneurs perform public services better than public workers. A very good example is the City of Phoenix, which "pioneered" if you will, the privatization of formerly public services, like garbage collection, building security and more.

Unfortunately, Phoenix is finding out that they may have opened a Pandora's box. The City is facing increased costs in many areas they never thought of. They have had to hire more administrative people to monitor the whole mess. They are facing mounting legal problems, and are fearful of corruption scandals similar to the New York-Chicago fiasco involving the privatization of the parking violation bureau collection.

One of the private garbage collector in Phoenix nearly went into bankruptcy, causing two disruptions in service due to a labor dispute and equipment failure.

Morale of City workers in Phoenix is at an all-time low, and people are complaining about sloppy, incomplete work on projects performed by private companies.

The problems of the privatization approach are also illustrated by developments in the New York system since the Bus Deregulation Act of 1982. That Act, consistent with the administration's present policy, allowed private operators easy access to routes already heavily serviced by intra and inter city bus lines.

This policy, though, did not result in bona fide diversification of service. Instead, the riding public was treated to dozens of gypsy operators, who rather than providing new routes and services, went right for the most established and congested parts of the system. We have no reliable data on the economic impact of these new operators. The physical impact, though, is clear. The explosion of small transit operators along established routes has tangibly increased the congestion on New York streets during rush hour and decreased the effectiveness of service for all.

We are equally unenthusiastic about any suggestion that the government should further encourage, as UMTA already does, private firms to become involved in transit maintenance and repair. It is simply beyond contravention that a system without the internal capacity to properly service its own stock will inevitably crumble. Not only will needed repairs not be performed in a timely manner, but the system will be at the mercy of outside contractors who are beyond its authority to manage or discipline.

To be sure, while we strongly oppose the administration's present privatization program, we are not afraid to compete with the private sector. We have shown the New York Transit Authority that our mechanics in Local 100 can, when given the tools and parts, repair rolling stock and equipment more effectively and on a less costly basis than the many private sector operators the city contracts out maintenance work to.

We cannot, though, compete on the terms set down by the administration; which contemplates low wage-high profit operators picking and choosing choice routes while leaving the most difficult and costly service to the public operator.

Operating Assistance

Service and maintenance improvement is fundamentally an operating problem. To the extent that various systems have begun to come to grips with the problems of properly servicing their fleets it is in large part due to the avilability of operating assistance and guidance from the Urban Mass Transit Administration. I am, therefore, exremely distressed that the Administration, yet again, has proposed that operating assistance should be cut out. And the administration's proposal to make the remaining transit assistance part of a large transit and highway block grant would simply be the death knell for effective and available mass transit. It is obvious that under such a program transit needs will be continually subordinated to highway needs.

The fundamental problems facing the vast majority of urban systems are operating problems. In my judgment, few if any systems will be able to properly maintain and service their fleets or protect their capital investments without a strong program for operating assistance. The 1982 STAA, by providing authorities with greater discretion to convert capital to operating assistance, represented a real step forward in this respect. I hope any new transit bill carries the same policy forward.

Labor Protection

One of the most disheartening aspects of being involved in the fight for urban mass transit is, after 22 years, still having to justify 13(c). 13(c) is a minimal statutory protection which, from our perspective, guarantees the continuation of our collective bargaining rights in those states in which collective bargaining is prohibited for public sector employees.

Year after year we are called upon to participate and work for improvement in transit productivity. We have done so. However, we can only continue to provide our participation and assistance (and the organized participation and assistance of the workforce is obviously crucial to productivity improvement) if the collective bargaining system is preserved. For example, in Houston, working in cooperation with management, we developed one of the most innovative labor contracts in transit. The contract has a number of productivity incentives which have tangibly improved morale and service in that city. However, because Texas state law prohibits public sector collective bargaining, without 13(c) this contract never could have been negotiated and none of the improvements in efficiency or service would have been realized.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ FROM RALPH STANLEY

QUESTION: Mr. Stanley, the Congressional Budget Office recently reported that the transit penny of the gasoline tax is now capable of supporting nearly $2 billion annually. Yet this Administration has requested only $1.1 billion in gas tax moneys for this as well as prior years. What is the reason for this discrepancy? What is happening to the rest of these funds -- some $900 million -- that the public has paid in good faith?

ANSWER: The one penny per gallon user fee on motor fuels generates about $1.22 billion per year for mass transit capital projects. In FY 1987, program levels for both FHWA's Highway Account and UMTA's Mass Transit Account are at levels which make full use of that year's user fees collected at the pump.

In FY 1987, if interest revenue in the Mass Transit Account were allowed to be expended, it would increase the total Federal deficit and would increase the Department's difficulty in meeting its Gramm-Rudman outlay targets.

In accordance with the law, Treasury holds the funds in the Mass Transit Account in the form of interest bearing securities. Interest payments are expected to generate an additional $275 million in FY 1986 and $313 million in FY 1987. Thus, this interest revenue plus existing Mass Transit Account balances, are the basis for projecting that the Mass Transit Account can support a higher level than $1.22 billion. The following table shows the projected interest on the assets of the Mass Transit Account:

MASS TRANSIT ACCOUNT REVENUE
(in millions of dollars)

	FY 1985 (Actual)	FY 1986 (Est.)	FY 1987 (Est.)
Motor Fuel Taxes	$1,214	$1,078	$1,216
Interest	206	275	313
Total Revenue	$1,420	$1,353	$1,529

The interest revenue deposited into the trust fund represents an intragovernmental transfer from the general funds of the Treasury to the Mass Transit Account. If this interest were expended, it would add to the Federal deficit.

2
HEINZ--STANLEY

Response of Ralph L. Stanley to Senator Heinz's Question

Question: Mr. Stanley, the FY 1986 continuing resolution that funds your agency clearly states that UMTA awards should not be conditioned on a transit agency's degree of private enterprise participation. Yet in the regulations you published in the Federal Register in January of this year, you state, "the approval of operating assistance grants is conditioned by the demonstration of the grantee to involve the private sector in its transportation program." How do you reconcile these statements?

ANSWER: UMTA is following the language included in the statement of managers on the Continuing Resolution regarding mass transit privatization initiatives.

The statement of managers requests that "release, allocation, or level of federal transit grant funding" not be conditioned "on a showing by applicants of a certain level of involvement of private sector providers in the provision of mass transportation services". UMTA does not condition transit grant approval on a certain level of private sector involvement or percentage of privately provided service.

We do require applicants to show that private sector participation has been considered. UMTA has provided guidance, requested by the transit industry, on what is needed to comply with Sections 3(e), 8(e), and 9(f) of the Urban Mass Transportation Act. Section 8(e) of the UMT Act requires that federally assisted transportation plans and programs encourage the participation of private enterprise to the maximum extent feasible. In asking for documentation as to localities efforts to consider the participation of private enterprise, UMTA is merely following the statutory requirements of the Urban Mass Transportation Act. It is, however, important to note that while we encourage consideration of all available transportation alternatives, public and private, the final decision as to which provider is most appropriate is left with local officials where it properly belongs.

QUESTION: Mr. Stanley, you have proposed to repeal the "Buy America" provision in the Surface Transportation Assistance Act. Has your agency conducted any research on the impact that repeal of this provision would have on domestic suppliers? If not, would you be willing to conduct such research and submit the findings to the Committee?

ANSWER: We have not yet decided whether we will conduct an in-depth economic analysis in this regard. However, the Administration has determined that "Buy America" is inconsistent with the Administration's larger trade policy goal of reducing barriers to the free flow of trade.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR D'AMATO FROM RALPH STANLEY

QUESTION: In your April 9, 1986 testimony before the House Appropriations Transportation Subcommittee, you indicated that no analysis had been made of the potential economic impact on the U.S. rail transit supply industry that might result from the repeal of the Buy America provision of the UMT Act, as recommended by the Administration. In this regard, you apparently agreed to conduct such an economic impact analysis.

When do you intend to start this analysis and what is your estimated completion date?

ANSWER: We have not yet determined if we will conduct an in-depth economic analysis. However, the Administration has determined that "Buy America" is inconsistent with the Administration's larger trade policy goal of reducing barriers to the free flow of trade.

QUESTION:
How do you intend to conduct this study? Do you intend to ask the rail supply industry to participate? I understand that they are willing to participate through their trade association, the Railway Progress Institute.

ANSWER: Obviously, we have not as yet made any final determinations as to how the study would be conducted. Some analysis had been conducted by the Transportation Systems Center in support of our 1983 rulemaking, and I would expect that we would expand on this analysis. I am aware that the Railway Progress Institute has offered their assistance, and if the study is conducted, participation by the Railway Progress Institute will be considered.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MATTINGLY FROM

RALPH STANLEY

MASS TRANSIT ACCOUNT

SENATOR MATTINGLY: The Congressional Budget Office has extimated the Mass Transit fund generates $1.7 billion in revenue. Why does this proposal limit the mass transit account to $1.2 billion?

ANSWER: The one penny per gallon user fee on motor fuels generates about $1.22 billion per year for mass transit capital projects. In FY 1987, program levels for both FHWA's Highway Account and UMTA's Mass Transit Account are at levels which make full use of that year's user fees collected at the pump .

In FY 1987, if interest revenue in the Mass Transit Account were allowed to be expended, it would increase the total Federal deficit and would increase the Department's difficulty in meeting its Gramm-Rudman outlay targets.

In accordance with the law, Treasury holds the funds in the Mass Transit Account in the form of interest bearing securities. Interest payments are expected to generate an additional $275 million in FY 1986 and $313 million in FY 1987. Thus, this interest revenue plus existing Mass Transit Account balances, are the basis for projecting that the Mass Transit Account can support a higher level than $1.22 billion. The following table shows the projected interest on the assets of the Mass Transit Account:

MASS TRANSIT ACCOUNT REVENUE
(in millions of dollars)

	FY 1985 (Actual)	FY 1986 (Est.)	FY 1987 (Est.)
Motor Fuel Taxes	$1,214	$1,078	$1,216
Interest	206	275	313
Total Revenue	$1,420	$1,353	$1,529

The interest revenue deposited into the trust fund represents an intragovernmental transfer from the general funds of the Treasury to the Mass Transit Account. If this interest were expended, it would add to the Federal deficit.

SENATOR MATTINGLY: As you know today is the day the Administration's rescission requests runs out. Do you have any other plans for this money? And if not, when do you expect these funds to be released?

ANSWER: On April 15, the 45 day rescission period expired. On April 16, all New Starts funding that had been withheld pending the rescission request was made available for obligation.

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MATTINGLY--STANLEY

RESPONSE OF RALPH STANLEY
TO
SENATOR MATTINGLY'S QUESTION

QUESTION: You mentioned that the encouragement of private and fair competition is one of this proposal's goals. And one way of assuring this is the case is to require that private operators be involved at the earliest stages of transportation planning. Could you please elaborate on this concept?

ANSWER: There is a demonstrated need to control transit costs and provide transit services more responsive to the diverse and changing needs of today's communities. This is doubly true in light of the Federal budget reductions that will be necessitated by Gramm-Rudman. Involving all transit providers, including private operators, in the development of transportation strategies is the most effective method to accomplish this.

Bringing together all of a community's resources in the early stages of transportation planning permits development of a truly effective transportation network by uniting the strengths of both the public and private sectors. The business community, for example, can help finance transit projects, employers can stagger work hours, private operators can expand service offered, local officials can coordinate zoning policies, public transit agencies can more specifically tailor service offered. When brought together before any one entity has made a final decision on a particular course of action, it becomes possible for all to work more effectively to coordinate their individual efforts.

QUESTION: You are proposing a block grant concept, combining many of the existing categorical programs for transit and highway projects. The way I understand the concept, transit and highway funds would be lumped together. I was wondering if you could address one of my concerns, that is, is there any guarantee that urban areas will not grab all the available funds, thereby leaving rural areas without?

ANSWER: While the block grant proposal calls for combining transit and highway funds, the responsibility for deciding on the use of these funds is basically unchanged. Urbanized areas over 200,000 will still be responsible for the funds attributed to those areas (approximately $1.5 billion of the total $3.3 billion block grant) while the approximately $1.8 billion remaining will be programmed by the States. Therefore, if the urbanized areas get any of those funds made available to the State, it will have been as a result of a decision by the State that these areas have higher priority needs. Thus, while there are no guarantees that rural areas will receive funds, given that the States are responsible for programming the funds, and that they have typically been quite sensitive to rural needs, we believe that rural areas should have no problem receiving adequate funding for cost-effective projects.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SASSER FROM RALPH STANLEY

QUESTION: I have before me a letter dated February 25, 1986, that I sent to you. Attached to this letter was a letter I received from K-TRANS, Knoxville's Transit Authority. It appears that, due to some incorrect bus passenger mile statistics submitted to UMTA in 1983, Knoxville's Section 9 formula apportionment was in error in FY 1985. To correct this error, UMTA decided to adjust Knoxville's FY 1986 apportionment. Unfortunately, the error was not made in K-TRANS' favor. UMTA has determined that Knoxville's FY 1986 apportionment must be reduced by $450,000 to correct for this error. In addition, UMTA has also retroactively reduced Knoxville's FY 1985 apportionment by the same amount.

Let me review for you what this means for the City of Knoxville. This means, in effect, that the transit system has lost $900,000 in FY 1986 even before the 12.2% FY 1986 Congressional reduction in Federal mass transit aid is added in. In other words, what Congress intended as a $332,695 reduction in transit funding to Knoxville in FY 1986 has been turned into a $1,232,695 reduction by UMTA. Needless to say, this does not seem an equitable solution to the problem.

I have several questions on this matter:

It seems to me that Knoxville is being required to relinquish a very large portion of its FY 1986 funds given the size of the city and the period of severe budget restraints that we're in. Why is it not possible to stretch out the repayment schedule? Why is UMTA insisting that an innocent error made over a more than one year time period be repaid in one fiscal year? Is this not simply a means this Administration is using to ignore Congress' continued commitment to funding for mass transportation?

ANSWER: The FY 1986 Section 9 formula apportionment for the Knoxville, Tennessee, urbanized area was decreased by $450,000. Knoxville's FY 1985 Section 9 formula apportionment was not reduced. Our normal procedure is to resolve differences between corrected apportionments and previously published apportionments and make the necessary adjustments by adding to or subtracting from, as appropriate, the apportionments for the next fiscal year. In this case, Knoxville was given $450,000 too much in FY 1985; accordingly, its FY 1986 apportionment was reduced by $450,000.

We do not permit these apportionment corrections to be "stretched out" because they represent funds that other urbanized areas are entitled to receive. Moreover, our records show that Knoxville had $771,016 in FY 1984 Section 9 formula funds and $2,329,828 in FY 1985 formula funds that it did not use in those years and carried over into FY 1986. In other words Knoxville's prior years balances cushioned reductions due to reduced Federal transit appropriations. These balances also cushioned Knoxville's FY 1986 $450,000 reduction due to an error in its prior data submission.

I want to emphasize that the correction to Knoxville's apportionment was not part of any attempt to ignore Congressional direction. Rather, it was a part of normal UMTA procedures in place since the start of the Section 9 formula program to correct errors that occur in apportionments.

QUESTION: Are there other cities that face apportionment reductions due to past errors? Have they protested this reduction as well? What do you intend to do about it?

ANSWER: In addition to Knoxville, adjustments were made in the FY 1986 Section 9 formula apportionments for nine (9) other cities to correct errors in reporting data used for the FY 1985 Section 9 formula apportionments. Each affected urbanized area was notified some months in advance of the corrections. I am not aware of any protest made to UMTA at this time.

We rely on data from our Section 15 reporting program to apportion funds under the Section 9 formula program. These data are somewhat complicated and difficult to verify and, as as a result, we routinely correct errors discovered in one year's apportionment in the following year's apportionment. We have been doing this from the beginning of the formula program, and have treated Knoxville no differently than other areas that had to have data corrected.

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SASSER--STANLEY

Response of Ralph Stanley
to
Senator Sasser's Question

QUESTION: The Congressional Budget Office recently reported that the transit penny of the gasoline tax is now capable of supporting annual appropriations to Mass Transportation of nearly $2 billion. Yet this Administration wants to place an artificially low ceiling on these funds in the face of very real capital and operating needs in this country. What is happening to the rest of the funds the public has paid in good faith? It seems to me that funds in the mass transit trust fund, earned from the gasoline tax, should be used for mass transit purposes.

ANSWER: The one penny per gallon user fee on motor fuels generates about $1.22 billion per year for mass transit capital projects. In FY 1987, program levels for both FHWA's Highway Account and UMTA's Mass Transit Account are at levels which make full use of that year's user fees collected at the pump .

In FY 1987, if interest revenue in the Mass Transit Account were allowed to be expended, it would increase the total Federal deficit and would increase the Department's difficulty in meeting its Gramm-Rudman outlay targets.

In accordance with the law, Treasury holds the funds in the Mass Transit Account in the form of interest bearing securities. Interest payments are expected to generate an additional $275 million in FY 1986 and $313 million in FY 1987. Thus, this interest revenue plus existing Mass Transit Account balances, are the basis for projecting that the Mass Transit Account can support a higher level than $1.22 billion. The following table shows the projected interest on the assets of the Mass Transit Account:

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The interest revenue deposited into the trust fund represents an intragovernmental transfer from the general funds of the Treasury to the Mass Transit Account. If this interest were expended, it would add to the Federal deficit.

4
SASSER--STANLEY

Response of Ralph Stanley
to
Senator Sasser's Question

QUESTION: I see that you have again requested no funding for operating assistance except to small urbanized and rural areas, even though Congress has continued to fund the operating account in spite of your efforts to gut this account in recent years. Operating expenses are extremely important to Tennessee transit authorities, as I'm sure you're aware. Given that a State such as Tennessee has comparatively high operating expenses in relation to its capital needs, why is it not possible to give each city the discretion to use some of its capital funds for operating purposes?

ANSWER: The availability of Federal operating subsidies distorts local decisionmaking and relieves local officials of having to bear financial responsibility for the service, fare and labor negotiation decisions they make. The negative effects of this influence are reflected in the fact that the cost to provide a unit of transit service has doubled in real terms since 1965, with the steepest increases since the initiation of Federal assistance. Contributing factors include a 7 percent drop in labor productivity between 1975 and 1983, absenteeism in transit about 25 percent higher than in other industries, labor compensation rates as much as twice as high as at private operators and average ownership of vehicles exceeding peak fleet requirements by 46 percent.

Meanwhile, transit utilization has also declined. This has occurred because service intensity has decreased as operators spread service thinner to follow the market and increase coverage as well as because of increased auto ownership and reductions in auto operating costs.

As a result, the cost per passenger has increased 129 percent in real terms since 1965.

Federal operating assistance has also allowed operators to avoid developing more equitable and higher yielding fare structures. Thus, total subsidy levels are seven times in real terms what they were in 1970. The user is paying only 43 percent of the operating cost of transit service and none of the capital cost.

Localities need to reexamine their needs and establish a competitive market for meeting them. Without a competitive atmosphere for acquiring transit service, local and Federal taxpayers have no assurance that the disciplines of the marketplace are working to ensure maximum efficiency and productivity.

The Administration does not expect any significant difficulties for large urban areas in adjusting to elimination of operating subsidies. In fact, ending Federal operating subsidies is very likely to speed up serious action to create a competitive transit environment and improve efficiency.

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SASSER--STANLEY

Response of Ralph L. Stanley
to
Senator Sasser's Question

Question: Could you please explain to me why you promote privatization and user fees in your proposal, yet you severely restrict the use of such alternative revenue raising options available to transit authorities as charter bus services? Doesn't that seem like a contradiction to you? It does to me.

ANSWER: The entire concept of Federal subsidy of public transportation is economically inefficient. The thrust of our overall legislative proposal is to substantially pull back Federal support and concentrate limited Federal resources into the most critical transit needs. Our policy thrust is to ensure that the scarce Federal transportation dollars are used for capital purposes that are directly related to public transportation.

Public transit operators are largely able to provide charter service because of the excess equipment and manpower available during off-peak hours. These operators have a powerful incentive to increase their capital stock in order to be able to provide more charter service. In the past, this has contributed to the overcapitalization of many transit agencies. The legislative proposal would not produce a resource inefficiency in the long run because it would eventually eliminate any overcapitalization that is due to the absence of effective controls on charter bus operations.

Further, it is unlikely that it would result in a resource inefficiency in the short run for two reasons. First, current charter bus operations provided by transit agencies nationwide have generated operating losses--$2.7 million in 1983. Any reduction in this loss could hardly be considered a resource inefficiency. Second, charter bus activities by public transit authorities cause unfair competition with private operators. By freeing up competition in the charter bus industry, more private sector jobs would be produced.

With publicly operated charter service incurring greater per hour costs than revenues, the transit deficit is increased. These deficits have risen from $300 million in 1975 to $6 billion in 1984.

Rather than continuously expanding the rush-hour fleets and then seeking to forge into charter and other markets traditionally served by the private sector with excess transit equipment available during off-peak hours, it would be economically more prudent for Federal policy to encourage localities to reduce transit rush-hour requirements by greater reliance on

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SASSER--STANLEY

significantly lower cost private sector strategies. Direct operation of premium express services by private operators and the establishment of active car and vanpool programs cost the public virtually nothing and have proven extremely satisfactory to customers. Contracting out services that require subsidies has also proven very effective. Private operators have consistently demonstrated a 20 to 60 percent cost savings to the public when service has been competitively contracted to them, according to a study by Dr. Roger Teal of the University of California.

The current UMTA charter bus regulations, however, are grounded in a philosophy which encourages the accumulation of transit equipment to meet rush-hour needs while permitting utilization of that equipment to intrude into private markets during other periods. This philosophy is economically harmful to both the transit and private charter bus industries and so we are proposing to revise the current regulation. In addition, it is important to point out that each mile of charter service performed with UMTA-funded equipment reduces the useful life of the bus for public mass transportation purposes, the sole reason for Federal financial assistance.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ FROM ELLIOTT PEROVICH

Question 1:

I know that all of your statements discuss in some detail the importance of continued federal support to transit authorities and the communities they serve. For the benefit of the Committee, could you speak specifically about the importance of operating assistance to communities serviced by both large and small transit authorities?

Response:

1. Speaking with my knowledge of transit funding of the various sixty-odd systems that receive transit assistance in Minnesota, which I suspect is not unlike many other states, it is evident that smaller transit sytems are funded on a percentage basis at a substantial higher level of federal dollars than are the larger systems. Most of the smaller systems depend on federal funds for thirty percent of more of operating dollars.

Likewise, while the larger transit systems are dependent on federal funds at a lower percentage level, we are talking about large sums of money that amounts to million of dollars to our system in the Twin Cities Area each year. Currrently dollars to operate our regular route transit service breakdown by 37% coming from the fare box, 44% percent coming from local property tax assessments, 11% from state appropriations and 8% from federal grants for operating assistance, which amounts to $8.5 million annually. With a loss of this amount of federal operating assistance dollars we would be looking at several options, none of which are desireable, to balance our budget. These options could include an increase in fares (which directly decreases ridership), service reductions of several million miles of service or attempting to get state legislative approval to increase our transit taxing authority on local property taxes.

Question 2:

I believe that one important issue that has not been studied enough is the indirect economic benefits of mass transit investment. We know that our investment in, for example, commuter rail systems serving Philadelphia and Chester County, or suburban areas surrounding other major cities, significantly reduces automobile traffic and the economic costs of time lost in such traffic. I believe there are other costs, such as parking fees and construction of parking facilities, that we would have to incur if we reduced the level of transit service. I believe it would be useful to quantify these costs. Do you have any specific information on this issue, or would you (or any of the other groups represented on the panel) be willing to conduct research on this issue and submit it to the Committee?

Response:

2. While I do not have any specific information on the indirect economic benefits of mass tranit investments, I couldn't agree with you more about the impact of transit investments on other economic costs relating to parking facilities and fees, reduced highway construction costs and loss of work time that results from over-crowded highways. Let me relate a couple specific examples that pertain to your questions and the Twin Cities Area.

In our area, west from downtown Minneapolis, a 9.8-mile segment of highway is being reconstructed and upgraded to inter-state status, to be known as I-394. While this highway will eliminate several congested intersections and replace them with interchanges, it is anticipated that this road will be more over capacity when the project is completed in 1992 as it is today, unless the High Occupancy Vehicle (HOV) lanes that are being built into the project for multi-passenger vehicles prove successful. We are working on this HOV project with other governmental agencies to make express buses with time transfers, park and ride lots, and car pooling desireable alternatives for commuters. There is still a calulated risk involved. This segment of highway is costing over $390 million - for less than 10 miles. Early in 1985, my agency, the Regional Transit Board, recommended to proceed with preliminary engineering for a Light Rail Transit (LRT) corridor. This three-pronged, transit system, if totally completed, would have covered 37 miles of lines and could have been built for about $360 million, less than the above mentioned highway project. I raise this issue to demonstrate the sense of priorities and lack of understanding of the cost-effectiveness provided by transit programs when compared to the tremendous costs of building more highways and maintaining them.

I have had several conversations with members of our business community regarding the traffic congestions and the tremendous cost of parking facilities. It is now estimated that in downtown Minneapolis, an average parking ramp stall costs appoximately $10,000 to build. Many of the more recently constructed parking ramps have been built with public funds, but the decision has been made by the city and county that no more public dollars will be used for parking ramps. The business community has indicated to me their continued support for transit is vital to the economic vitality of the two downtowns of St. Paul and Minneapolis. Several have indicated that they felt an obligation to financially support transit operations. I plan to continue to dialogue with our business leaders regarding the advantages of maintaining efficient transit service. Just look at the effects of a transit strike on the business community to demonstrate the link of transit to any city in our country. This can be reinforced by information on a recent transit strike in Philadelphia where I recently read some information compiled by their Chamber of Commerce regarding the economic losses to the downtown businesses. While I can't recall the exact statistics, the dollar losses were tremendous. I'm certain that Senator Heinz is familiar with the details of the Philadelphia strike.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ FROM BETTY ANN KANE

From: Betty Ann Kane on behalf of the National League of Cities

Re: Responses to Questions from Sen. Heinz

Question 1:

I know that all of your statements discuss in some detail the importance of continued federal support to transit authorities and the communities they serve. For the benefit of the committee, could you speak specifically about the importance of operating assistance to communities served by both large and small transit authorities.

Response

Clearly for smaller cities, operating assistance is more often than not, the critical difference between having or not having a public transportation system. A fairly typical example -- Johnstown, Pa. -- federal operating assistance provides more than 35 percent of the costs of operating the public transit system. The preponderance of the ridership are elderly persons on fixed incomes, and individuals on public assistance. Reductions in federal operating assistance would almost certainly result in concommitant reductions in service. Fair increases are not a viable alternative since most riders could not afford the increase and would cease or significantly reduce their use of the service further exacerbating the ability of the municipality to finance transportation.

In the larger cities, operating assistance is a smaller portion of the transit authority's operating budget but is nevertheless a significant contribution that would have to be recouped elsewhere if such assistance were reduced or eliminated. Again, fare increases to make up the difference are counterproductive since they result in reductions in ridership. Service reductions are also a counterproductive measure since ridership declines as service becomes less frequent or less convenient.

Question 2:

I believe that one important issue that has not been studied enough is the indirect economic benefits of mass transit investment. We know that our investment in, for example, commuter rail systems serving Philadelphia and Chester County, or suburban areas surrounding other major cities, significantly reduces automobile traffic and the economic costs of time lost in such traffic. I believe there are other costs, such as parking fees and construction of parking facilities, that we would have to incur if we reduced the level of transit service. I believe it would be useful to quantify these costs. Do you have any specific information on this issue, our would your (or any of the other groups represented on the panel) be willing to conduct research on this issue and submit it to the committee?

Response

Not only does the availability of public transportation "reduce automobile traffic and the economic costs of time lost in such traffic," it also provides convenient accessibility to downtown shopping areas thus enhancing economic growth and expanding job opportunities. The expanded employment opportunities also become accessible and available to lower income individuals without the resources to own and maintain private automobiles and afford downtown parking costs. In addition, reductions in automobile traffic result in less air pollution, an economic as well as health benefit.

It is our understanding that the American Public Transit Association has done several studies on the economic effects of public transportation: "Economic Benefits of Public Transit" dated May 1983 and "Employment Impacts of Transit Capital Investment and Operating Expenditures" April, 1983.

The National League of Cities would certainly be interested in participating in any additional studies of this nature that might be of interest to the Committee.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ FROM
ROBERT THOMPSON

Question 1:

I know that all of your statements discuss in some detail the importance of continued federal support to transit authorities and the communities they serve. For the benefit of the Committee, could you speak specifically about the importance of operating assistance to communities serviced by both large and small transit authorities?

Response: Counties which operate transit systems need the flexibility to decide how federal funds are to be spent. In many systems, particularly smaller systems, the capital side of the equation is adequately addressed and the federal transit funds are most needed for operating purposes. It seems to me that as long as the Congress recognizes a federal interest in mass transit and hence is willing to provide a subsidy to the local government operating the transit service, such funds should be permitted to be used for operating purposes.

Question 2:

I believe that one important issue that has not been studied enough is the indirect economic benefits of mass transit investment. We know that our investment in, for example, commuter rail systems serving Philadelphia and Chester County, or suburban areas surrounding other major cities, significantly reduces automobile traffic and the economic costs of time lost in such traffic. I believe there are other costs, such as parking fees and construction of parking facilities, that we would have to incur if we reduced the level of transit service. I believe it would be useful to quantify these costs. Do you have any specific information on this issue, or would you (or any of the other groups represented on the panel) be willing to conduct research on this issue and submit it to the Committee?

Response: SEPTA has not done any specific analysis on what would happen if transit service was reduced or eliminated. However, we do have data which shows that 62% of those people coming into the Philadelphia Central Business District for work each day, or 264,000 persons, do so using mass transit. That number jumps to 80% if you include all other persons entering the Central Business District for whatever reason. W mass transit the additional costs in parking facilities, police services, improved roads and maintenance of existing roads would be staggering. SEPTA provides 357 million rides annually in our five county region. We clearly do not have the facilities to move the same number of people on our road systems nor do we have the county budgets to do so.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ FROM FRANCIS B. FRANCOIS

AMERICAN ASSOCIATION OF STATE HIGHWAY
AND TRANSPORTATION OFFICIALS

THOMAS D. LARSON, President
Secretary
Pennsylvania Department
of Transportation

FRANCIS B. FRANCOIS
Executive Director

May 13, 1986

Honorable Jake Garn, Chairman
Senate Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

We are pleased to submit the following information for the hearing record on Reauthorization of the Urban Mass Transportation Act in response to the Committee's questions:

Question 1:

I know that all of your statements discuss in some detail the importance of continued federal support to transit authorities and the communities they serve. For the benefit of the Committee, could you speak specifically about the importance of operating assistance to communities serviced by both large and small transit authorities?

Response:

The financing of operating costs remains the major problem facing most transit managers and administrators. While larger cities do not rely as heavily on federal operating assistance as do smaller cities, the magnitude of federal-aid would, if eliminated, necessitate a large increase in user or local/state government funding. Smaller cities and rural areas rely more on government subsidies than fares to fund operating expenses. The elimination of federal aid to these systems would cause larger increases in fares, substantial reductions in service, and greater demand for local and state assistance, or in extreme cases, lead to cessation of transit service altogether.

A detailed discussion with projections of costs is included in the AASHTO report, "A Study on Future Directions for Public Transportation in the United States" in Section 3.1, Financing Transit Operating Costs.*

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*Material being held in Committee files.

Question 2:

I believe that one important issue that has not been studied enough is the indirect economic benefits of mass transit investment. We know that our investment in, for example, commuter rail systems serving Philadelphia and Chester County, or suburban areas surrounding other major cities, significantly reduces automobile traffic and the economic costs of time lost in such traffic. I believe there are other costs, such as parking fees and construction of parking facilities, that we would have to incur if we reduced the level of transit service. I believe it would be useful to quantify these costs. Do you have any specific information on this issue, or would you (or any of the other groups represented on the panel) be willing to conduct research on this issue and submit it to the Committee?

Response:

AASHTO issued a publication in 1977 titled, "A Manual on User-Benefit Analysis of Highway and Bus-Transit Improvements," which was an effort to quantify the costs of both highway improvement projects and bus-transit improvements. While cost factors have changed which can be updated as explained in the manual, the methodology can still be used to account for such factors as travel time savings. A copy of the manual is enclosed for the Committee's review.*

AASHTO's policy recommendations encourage local governments to adopt parking policies compatible with the promotion and expansion of public transportation.

Very truly yours,

Francis B. Francois
Executive Director

FBF:WDL:djt
Enclosure

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MATTINGLY FROM FRANCIS B. FRANCOIS

AMERICAN ASSOCIATION OF STATE HIGHWAY
AND TRANSPORTATION OFFICIALS

THOMAS D. LARSON, President
Secretary
Pennsylvania Department
of Transportation

FRANCIS B. FRANCOIS
Executive Director

May 13, 1986

Honorable Jake Garn, Chairman
Senate Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

We are pleased to submit the following information for the hearing record on Reauthorization of the Urban Mass Transportation Act in response to the Committee's questions:

Question 1:

You mentioned that you would like the Administration to consider the concept of separate transit and highway block grants. Can you elaborate on what you see as the problems with a block grant, as is being proposed?

Response:

There are two major problems with the Administration's combined Highway-Transit Block Grant proposal. First, the proposed funding level is approximately 40% below funding currently being provided for these programs. It requires little further analysis to see how such a reduction would raise immediate concerns. Since the needs of both highway and transit programs have been documented to be well beyond current resources being provided by all levels of government, it makes little sense to argue that a reduced commitment by the federal government can be offset by improved flexibility in the use of funds.

Second, the institutional problems that would be created by the proposal would be quite significant. The present flow of federal transportation funds is rather complex and is also different for the highway and transit programs. The institutional and jurisdictional arrangements of our urban areas is in itself extremely complex. While AASHTO has long advocated that all federal transportation funding should flow through the state, we believe the need for stability in these programs is more important. Combining the funding at the proposed levels at this time would produce the opposite.

Separate transit and highway block grant programs would provide a smoother and less disruptive change. A demonstration program would provide a mechanism for state and local governments to voluntarily assume an even create role in federal highway and transit financial decisions. We encourage the Committee to consider such approaches before moving to a combined block grant approach.

Question 2:

You mentioned in your testimony that the Davis-Bacon Act is just a selective wage control. I have always stated that the Davis-Bacon Act unnecessarily increases project costs. Does your organization have any figures as to what negative impact, that is, what additional costs Davis-Bacon places onto states and the federal aid transportation programs?

Response:

While we are aware of specific projects that have demonstrated the impacts of such costs, we have not collected any detailed figures from the states. We would be willing to do so if requested by the Committee.

Very truly yours,

Francis B. Francois
Executive Director

FBF:WDL:djt
Enclosure

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ FROM TERRY GODDARD

Question 1:

I know that all of your statements discuss in some detail the importance of continued federal support to transit authorities and the communities they serve. For the benefit of the Committee, could you speak specifically about the importance of operating assistance to communities serviced by both large and small transit authorities?

Response to Senator Heinz Question 1: Operating assistance is extremely important to both small and large connmunities. To a great extent it is far more important to a smaller communitiy because a greater percentage of their overall costs can be attributable to federal operating assistance. But more importantly, the exisitence of operating assistance for all communities is important because it permits the use of the federal dollar at the local level in a way which makes the most sense for that communitiy. The U.S. Conference of Mayors believes that while innovation can and should improve the operating efficiency of public transportation in the United States, it is approriate for resources to continue to be available for operating assistance on a limited basis. While cities continue to raise taxes, increase fares, and bring about new financing techniques to improve the funding base of transit, federal operating assistance continuation will help to ensure that transit is maintained in smaller communities and that fare rises in larger communities are held to a level which increases revenues without discouraging ridership.

Question 2:

I believe that one important issue that has not been studied enough is the indirect economic benefits of mass transit investment. We know that our investment in, for example, commuter rail systems serving Philadelphia and Chester County, or suburban areas surrounding other major cities, significantly reduces automobile traffic and the economic costs of time lost in such traffic. I believe there are other costs, such as parking fees and construction of parking facilities, that we would have to incur if we reduced the level of transit service. I believe it would be useful to quantify these costs. Do you have any specific information on this issue, or would you (or any of the other groups represented on the panel) be willing to conduct research on this issue and submit it to the Committee?

Response to Senator Heinz Question 2: The Conference is pleased to submit for the Committee's consideration excerpts from various studies which highlight the important relationship between transportation and economic development. The Conference agrees with the Senator that this should be an important factor in the development of federal transportation policy and is one which is often overlooked.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MATTINGLY FROM TERRY GODDARD

Question 1:

You mentioned that you would like the Administration to consider the concept of separate transit and highway block grants. Can you elaborate on what you see as the problems with a block grant, as is being proposed?

Response to Senator Mattingly Question 1: As suggested in Mayor Goddard's testimony, the Conference believes that the Administration's proposed "Urban Mobility Block Grant" should not be enacted for several reasons. First, it would be accompanied by a virtual 70 percent reduction in overall federal support for transit, which is unacceptable to the Conference. Secondly, while the theory of local highway interests and local transit interests receiving a block of revenue from the federal government and dividing it on an annual basis has some theoretical merit, In practice it does not appear to be justified by need. Neither the problems nor the conflicts seem so severe at the local level to warrant a wholesale abandonment of the planning and allocation system for highway as transit which has generally functioned well. The Confereence would prefer to see substantial "block granting" of both highway and transit programs to increase flexibility and facilitate innovation at the local level. When that has occured, perhaps constituencies and procedures will have moved in a sufficiently parallel direction to permit what is now vastly different approaches to be brought more closely otgether.

Question 2:

You mentioned in your testimony that the Davis-Bacon Act is just a selective wage control. I have always stated that the Davis-Bacon Act unnecessarily increases project costs. Does your organization have any figures as to what negative impact, that is, what additional costs Davis-Bacon places onto states and the federal aid transportation programs?

Response to Senator Mattingly Question 2: The U.S. Conference of Mayors currently has no information on the impact of Davis-Bacon on federal aid transportation programs.

QUESTION 3:

You mentioned that the encouragement of private and fair competition is one of this proposal's goals. And one way of assuring this is the case is to require that private operators be involved at the earliest stages of transportation planning. Could you please elaborate on this concept?

Response to Senator Mattingly Question 3: The U.S. Conference of Mayors is a strong supporter of private sector participation in public transportation programs. As Mayor Goddard mentioned in his testimony, this is occuring in many cities across the country and will ultimately provide great benefit nationally. Where we differ from the Administration in this particular area is our objection to the participation of the private sector as a fixed requirement in the UMTA program. Private sector involvement should be encouraged and helped to be made possible. The federal government should refrain from coercion in this regard. Over the last year, the Conference has engaged in an effort to examine new financing techniques for transit in cities and found a strong desire on the part of city officials to move in the direction of private sector involvement in transit. The Conference believes that this will occur in response to particular and unique conditions at the local level, and not from federal mandates.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ FROM
ROBERT A. MOLOFSKY

Amalgamated Transit Union
5025 Wisconsin Ave. N.W. Washington, D.C. 20016
202 537-1645
Office of the International President

Q. 1. FROM YOUR PERSPECTIVE, WHAT ARE THE TWO OR THREE MOST IMPORTANT CHANGES THAT NEED TO MADE IN THE SURFACE TRANSPORTATION ACT FOR PURPOSES OF REAUTHORIZATION? AND WHAT ARE THE MOST IMPORTANT SECTIONS OF THE ACT THAT MUST REMAIN UNCHANGED?

This is in reply to the questions you raised following our April 15, 1986 testimony before the Senate Subcommittee on Housing and Urban Affairs of the Committee on Banking Housing and Urban Affairs.

A.1. First, the Amalgamated Transit Union believes that the Urban Mass Transportation Act of 1964, as most recently revised by the Surface Transportation Assistance Act of 1982 (STAA), has worked well and that its benefits are manifest. As we view it, the Act requires only fine tuning and increased funding, not radical restructuring.

As stated in our testimony, we are categorically opposed to the Administration's proposals for drastic changes in the present program structure. We believe the Congress should retain and extend the present program encompassing dedicated tax revenues for discretionary capital funding under Section 3, along with the Section 9 formula allocations for both capital and operating assistance funded from general revenues. However, certain amendments to the Act must be adopted, and others are desirable, if the current federal transit funding program is to be extended and improved. They include:

a) a minimum four year extension of the Section 9 formula grant program providing for both capital and operating assistance at current funding levels;
b) extension of the Section 3 discretionary capital grant program with assurance that the full amount generated by the dedicated gas tax must be spent on transit needs;
c) renewal of the three for two capital/operating trade-in provision to continue needed funding flexibility at the local level in the use of available federal funds;
d) multi-year funding commitments to improve project implementation, planning and savings.

In addition, the ATU has strongly advocated an amendment which would limit UMTA's authority to impose privatization or competitive bid requirements upon grant applicants and which would foreclose UMTA from conditioning funding based on applicant's adherence to such standards. Such an amendment is deemed essential to carry out the Congressional intent that UMTA should remain neutral and should refrain from interference in local transit decision making and collective bargaining matters, by seeking to force reprivatization or to dictate the methods and means by which public transit services shall be provided.

The proposals we have submitted to the Committee in this regard would reaffirm the federal policy of neutrality on the use of private transit service providers. It would also insure that decisions over these matters are determined at the state and local levels free from federal standards and requirements.

As discussed more fully in our testimony, we do not believe that it is appropriate to allow UMTA to substitute its views for those of the transit operators as to the most effective way to provide efficient, safe and cost effective community based service. While our amendment would restrict the Department of Transportation from prescribing specific privatization and competitive bid standards and conditioning the distribution of transit grants on a recipient's adherence to such requirements, it would not otherwise prevent transit agencies from applying for federal funds to support services by private operators, or from utilizing competitive bid procurement procedures to obtain efficiencies or to contain costs.

Aside from the improvements and privatization amendments outlined above, we otherwise believe that the program should remain generally intact. Specifically, transit labor believes that the Section 13(c) employee protection provisions which for over twenty years have provided important collective bargaining and job right guarantees to the nation's 200,000 transit workers should remain unchanged. As stated in our testimony, a careful review of the employee protection program indicates that while providing significant and meaningful protection to the nation's transit workers, it has not a) impeded the flow of federal transit funding; b) limited transit innovation or c) prevented service improvements in public or private transit operations. Nor has Section 13(c) had any discernible impact upon the results of the collective bargaining process which has produced wage and benefits levels comparable to those achieved by other public and private employees. Significantly, recent studies have shown that over the last ten years, the communities we serve have obtained substantial productivity and service improvements, often through changes in labor contracts and work rules made by agreement of both parties at the collective bargaining table.

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HEINZ—MOLOFSKY

2. BOTH OF YOUR STATEMENTS CITE STUDIES AND EXAMPLES OF TRANSIT AUTHORITIES IN WHICH THE INVOLVEMENT OF PRIVATE SECTOR OPERATORS AND MANAGEMENT PRODUCED NO COST SAVINGS AND REDUCED SERVICE LEVELS. WHY DO YOU SUSPECT THIS IS SO? IN ADDITION, WE HAVE NOW HEARD FROM UMTA ADMINISTRATOR RALPH STANLEY, WHO STATES THAT PRIVATIZATION WILL YIELD COST SAVINGS, AND ALSO THAT PRIVATE OPERATORS ARE MOST LIKELY TO CHOOSE LEAST LUCRATIVE ROUTES, RATHER THAN THE MOST LUCRATIVE ROUTES, AS YOU STATE. HOW WOULD YOU RESPOND TO THESE ASSERTIONS AND ARGUMENTS?

A: The second series of your questions focuses on the issues of potential cost savings, and service selections arising from the use of private operators.

We strongly disagree with those who have contended that the use of private operators selected by competitive bid to provide designated transit services will produce long term cost savings and improved service. In our view, transit is, by its very nature, and must remain, a subsidized public service. The same factors that compelled the industry to convert from private to public operation over the past twenty years are still present. Public mass transit needs cannot be met at a profit, else there would have been no call for a national funding program. Moreover, even if competitive bidding between service providers and the use of the lowest wage private operators tends to hold down costs, there is no conclusive evidence that their services will be comparable to public operations or that they will be run for the public benefit, rather than for private profit. It is for these reasons that we have sought to assure that the federal policy in this area remain one of neutrality allowing decision making over the choice of service providers to be determined at the state and local levels free from federal standards or requirements.

The Westchester and New Jersey experiences cited in our testimony buttress this position. In Westchester County for example, the County's experience with private operators providing comprehensive county wide service indicates that when fully allocated costs are considered, including management fees, fixed profit margins, contract oversight, salaries of officers and other contract personnel, acquisition and maintenance of equipment, and the payment of competitive wages and benefits to employees, little, if any, long-term cost savings have been achieved as compared to public ownership and operation of such services.

The experience in New Jersey is even more dramatic where a number of private operators have recently been seeking to obtain service rights over some of the more profitable routes currently operated by New Jersey Transit. There has been absolutely no effort by these or other private profiteers to secure operating rights in the less dense and deficit producing corridors currently served by the state system. If as UMTA Administrator Stanley has argued, private operators have indeed agreed to operate on unprofitable routes now served by public transit systems, it is almost certain that they will not long continue to provide such services without substantial public subsidies. The idea that private operators can be enticed to enter into these losing operations has no validity whatever, unless subsidies guaranteeing profits to the operator are provided.

The inevitable result of allowing private transit services to operate in direct competition with the public system is to weaken the financial structure of the public system by diversion of its revenues. If private providers are to be permitted to siphon off through wasteful competition, the revenues needed by public providers to service the communities' broader transit needs, there will clearly be a loss of essential public service to the community as a whole. The most frequently sought service continues to be commuter runs operating in the more densely populated areas. Further, where cost savings have been achieved, they inevitably involve private companies taking advantage of an operating differential largely obtained by lower, cut-rate labor costs involving part-time non-career personnel. It is difficult to imagine such systems avoiding high employee turnover, or establishing safe, long term, reliable service.

In conclusion, it should be stressed that reliance on short term labor cost considerations is too narrow a basis for decision making as to the choice of service providers. The provision of public transit service by private enterprise and the use of public funds to support such services requires consideration of a wide-range of policy factors. Safety, system coordination, public control and responsiveness, reliability, performance, and a commitment to satisfying the full range of community transit needs must all be factors in the decisions making process. Unfortunately, UMTA's privatization policy has overstressed questionable cost savings to the detriment of these more comprehensive service needs and requirements.

We again appreciate the opportunity to express our views to the Committee on the issues of importance of transit labor. We commend the committee on its continuing efforts to develop legislation to continue the long standing federal commitment to public mass transit.

Sincerely,

Jim La Sala
International President

/rfm

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ FROM ARTHUR LUBY

Q 1. From your perspective, what are the two or three most important changes that need to be made in the Surface Transportation Act that must remain unchanged?

A 1. In TWU's judgment, any new Surface Transit Assistance Act should contain provisions prohibiting the Administrator from compelling Transit Authorities to contract out for services or otherwise provide paperwork justifying such a decision. A decision to contract out, like most decisions an enterprise makes, should stand on its own economic merits rather than result from coercion to conform to a particular Administrator's ideology.

As we indicated in our testimony, the most important features of the Act which must remain the same are the labor protective provisions in 13(c) and the operating assistance program.

Q 2. Both of your statements cite studies and examples of transit authorities in which the involvement of private sector operators and management produced no cost savings and reduced service levels. Why do you suspect this is so? In addition, we have now heard from UMTA Administrator Ralph Stanley, who states that privatization will yield cost savings, and also that private operators are most likely to choose the least lucrative routes, rather than the most lucrative routes, as you state. How would you respond to these assertions and arguments?

A 2. We not only "suspect" that it is the case that involvement of private operators will not produce cost savings, but we also have seen dramatic examples verifying this in New York City, Westchester County, and Phoenix. Stanley, of course, has produced no evidence to show that private operators will choose the "least lucrative routes" and, in fact, the only cases in which private operators have shown interest in sparsely traveled routes are when they are subsidized to do so. It is quite clear that private operators have and will remain interested only in performing work in which they can turn a quick and easy profit using low wage employment and a minimum of investment. Even in this case, the private operators continually lower the level of surface as soon as the profit margin shows signs of receding.

REAUTHORIZATION OF THE URBAN MASS TRANSPORTATION ACT

WEDNESDAY, APRIL 16, 1986

U.S. Senate,
Committee on Banking, Housing, and Urban Affairs,
Subcommittee on Housing and Urban Affairs,
Washington, DC.

The subcommittee met at 9:30 a.m., in room SD–538, Dirksen Senate Office Building, Senator Chic Hecht (chairman of the subcommittee) presiding.

Present: Senators Hecht, Garn, Heinz, D'Amato, Gorton, Mattingly, Cranston, Dixon, and Sasser.

OPENING REMARKS OF SENATOR HECHT

Senator **Hecht**. Today the Subcommittee on Housing and Urban Affairs begins the second and last hearing to be held on the reauthorization of the Urban Mass Transportation Act.

Today's witnesses include transit operators, academic specialists, and representatives of private transit providers.

As was the situation yesterday, your full statement will be a part of the record. I ask everyone to summarize their remarks in 5 minutes.

With that, I will ask my colleagues if they have an opening statement. Senator Garn.

Senator **Garn**. I have no opening statement, Mr. Chairman.

Senator **Hecht**. Senator Heinz.

OPENING REMARKS OF SENATOR HEINZ

Senator **Heinz**. Mr. Chairman, I have no opening statement but I do want to welcome one of our witnesses today, Bill Millar of the Port Authority Transit in Pittsburgh, PA, in Allegheny County. Bill I've been privileged to work with and know for longer than he and I would care to admit, and he does an outstanding job. Bill, we're delighted to have you here as a spokesman for an extremely well run, large transit system. We are proud of the work that you do at Port Authority of Allegheny County [PAAC] and you're an example of the fine work that mass transit authorities all over the United States do and thank you for being here very ably representing that public service.

Senator **Hecht**. Senator Gorton.

Senator **Gorton**. No opening statement, Mr. Chairman. Thank you.

Senator HECHT. I'm going to ask the No. 2 panel to come up with the understanding that when Senator Lautenberg comes in we will interrupt you and allow him to give his testimony. William Millar, William Volk, Michael Bolton, and Deane Dana.

Mr. Millar, would you like to start off?

STATEMENT OF WILLIAM W. MILLAR, EXECUTIVE DIRECTOR, PORT AUTHORITY OF ALLEGHENY COUNTY, PITTSBURGH, PA

Mr. MILLAR. Thank you, Mr. Chairman, I would be very happy to. Let me first say how pleased I am that you are holding these hearings. I believe these hearings are very important and I think that they will help elucidate many of the concerns and many of the reasons why we need to reauthorize the Nation's Mass Transit Assistance Program.

To Senator Heinz I can only say "thank you." I appreciate the kind comments and thank you for your many years of support.

Mr. Chairman, in keeping with your directive I do not intend to review my written testimony in any detail other than to say that clearly we support the reauthorization of the Nation's Mass Transit Assistance Program. We believe that it is very important.

MAINTAIN PRESENT FUNDING LEVELS

Second, while we feel that while we understand the need to grapple with the national deficit and will do our part in doing so, we certainly think that the funding levels that have already been cut over the last several years should be frozen as they have become the appropriate funding levels for transit in the current environment. I would urge that those levels be maintained in the authorizing bill.

Third, we believe that the program as it is currently structured has a number of important parts and all those parts should be continued. That includes capital aid, both formula and discretion; operating aid, which I believe is absolutely essential to protect the Federal investment made in mass transit; and finally, I think that we need to have good strong planning and research and demonstration programs so that we can continue to bring new ideas to the transit marketplace.

One other issue with regard to funding levels is that we are strongly in favor of utilizing the full one penny of the gas tax for transit as its supporters were promised back in 1982 the last time I had the good fortune to testify before this subcommittee.

There are three or four issues that I did not cover in any detail in my written testimony I want to address this morning that I believe are of interest to the subcommittee.

CONTRACTING OUT SERVICES

The first is the matter of competitively bid contracting out of service. The Port Authority of Allegheny County, as my testimony indicated, is a large organization. We transport about 300,000 riders a day, have an operating budget of $145 million a year. At the present time we offer several different modes of service, some of which are contracted out.

We contract with the Chessie System for commuter rail service. We contract with a neighborhood preservation group for running one of our incline planes and we also have arrangements with private fixed-route bus operators. For example, the Shortway Suburban Co. provides fixed-route bus service to Pittsburgh from the south. We also have arrangements with the Debolt Bus Co. and 88 Transit Lines to utilize our very successful Martin Luther King Jr. East Busway and South Busways as well.

In addition to these, we spend about $11 million a year contracting with various taxicab and paratransit operators in the Pittsburgh area to provide the Nation's most successful paratransit service, our access program. Last year, for example, we were able to serve approximately 1.2 million senior citizen and disabled riders through our access program.

Looking ahead, we have a proposal for a low-density demonstration project in the eastern end of Allegheny County in the community of Monroeville. It is a typical low-density modern suburban community that quite frankly is not well served by regular fixed-route transit. We are proposing to completely restructure our service in that area and contract that service out to private carriers. We believe that we can improve the level of service and operate a much more efficient service on that basis.

We believe there is a bright future for contracting out. We are concerned, though, that such decisions be left to decisionmakers at the local level. We are concerned that if Federal law is written to mandate certain levels of contracted service, that will not work well and that transit agencies as with any rule, will try to meet the letter of the rule rather than the spirit of what is really intended. If contracting is worth doing, it is worth doing for good business practice purposes, not because there is a Federal law that says it should be done.

Other issues I want to just touch on briefly and then I will complete my testimony. One thing that was not mentioned in the letter that was sent to the testifyers but which I think is important to discuss is the matter of matching ratios in Federal transit programs.

There has been an effort in the last few years to tie grants, particularly the discretionary grants, to the willingness of local communities to bid up the matching ratios; that is, the amount of local share that is included in a project. While certainly having a local share is essential, I do not think we want to get into a situation where one portion of the country which at one particular point in time may be much wealthier than another portion of the country is able to put up a lot more money when perhaps the true transit needs are elsewhere.

So I strongly urge that there be a uniform national matching ratio within each Federal transit assistance program.

With regard to congressionally mandated standards on the discretionary program, we are not in favor of such standards. We believe that given the diversity of the country any effort to set standards will result in such broad and generalized measures as to be probably meaningless.

Finally—and I recognize that the Banking Committee does not have jurisdiction over the tax bill, but I think that as tax reform is considered, there are a number of things that can be helpful to mass transit in that regard.

In Pittsburgh, we were the first in the Nation to issue advanced construction notes, for example, as a way of making sure that our light rail transit construction project moved ahead in an expeditious fashion. We would like to continue to be able to take advantage of the opportunities that the current Tax Code has afforded.

So with those brief statements I will conclude my remarks and again thank you for the opportunity to appear here today.

[The complete prepared statement follows:]

STATEMENT OF
WILLIAM W. MILLAR, EXECUTIVE DIRECTOR
PORT AUTHORITY OF ALLEGHENY COUNTY

BEFORE THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE U.S. SENATE
BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE

WEDNESDAY, APRIL 16, 1986

MR. CHAIRMAN, IT IS INDEED A PLEASURE AND HONOR FOR ME TO APPEAR THIS MORNING BEFORE THIS COMMITTEE AND I THANK YOU FOR THE OPPORTUNITY TO DO SO. MY NAME IS WILLIAM W. MILLAR. I AM THE EXECUTIVE DIRECTOR OF THE PORT AUTHORITY OF ALLEGHENY COUNTY WHICH IS THE PRINCIPAL MASS TRANSIT SYSTEM SERVING THE PITTSBURGH, PA URBANIZED AREA.

I WANT TO COMMEND AND THANK YOU FOR HOLDING THESE HEARINGS. I AM ESPECIALLY PLEASED TO APPEAR BEFORE A COMMITTEE WHICH INCLUDES THE HONORABLE JOHN HEINZ, THE DISTINGUISHED SENIOR SENATOR FROM PENNSYLVANIA. I AM HOPEFUL THAT MY PERSPECTIVES WILL ASSIST THE COMMITTEE AS IT DRAFTS LEGISLATION TO CONTINUE A MEANINGFUL FEDERAL ROLE IN FINANCING THE NATION'S PUBLIC TRANSPORTATION SYSTEMS.

THE PORT AUTHORITY -- WHICH LOCAL RESIDENTS KNOW SIMPLY AS "PAT" -- OWNS AND OPERATES SOME 900 BUSES, 90 STREETCARS AND LIGHT RAIL TRANSIT VEHICLES, TWO INCLINED PLANES AND ONE COMMUTER TRAIN TO SERVE A POPULATION OF NEARLY 1.5 MILLION PERSONS OVER 730 SQUARE MILES OF ALLEGHENY COUNTY AND PARTS OF ADJOINING COUNTIES. IN ADDITION, PAT CONTRACTS WITH 14 PRIVATE TAXI COMPANIES AND HUMAN SERVICE AGENCIES TO PROVIDE SPECIALIZED TRANSIT SERVICE FOR ELDERLY AND HANDICAPPED PERSONS KNOWN AS THE ACCESS SYSTEM. ON A TYPICAL WEEKDAY, ABOUT 300,000 TRANSIT RIDERS USE THE PAT SYSTEM TO TRAVEL TO AND FROM JOBS, TO SHOP AND ATTEND TO EDUCATIONAL, MEDICAL AND OTHER NEEDS.

THE PORT AUTHORITY ALSO OPERATES TWO ROADWAYS USED EXCLUSIVELY FOR TRANSIT -- THE SOUTH BUSWAY WHICH SERVES THE SOUTH HILLS SECTION OF ALLEGHENY COUNTY, AND THE MARTIN LUTHER KING, JR. EAST BUSWAY SERVING THE EASTERN SECTION OF ALLEGHENY COUNTY. THESE HIGHLY SUCCESSFUL PROJECTS WERE 80% FEDERALLY FUNDED AND ARE THE ONLY FACILITIES OF THEIR TYPE IN THE COUNTRY. CURRENTLY, THEY SERVE ALMOST 50,000 TRANSIT RIDERS EVERY WEEKDAY.

A FEDERAL, STATE AND COUNTY PUBLIC TRANSIT PARTNERSHIP HAS ENABLED PAT TO MAKE SUBSTANTIAL CAPITAL IMPROVEMENTS FOR THE CITIZENS OF ALLEGHENY COUNTY INCLUDING MOST RECENTLY:

1. THE RECONSTRUCTION OF THE STAGE I SOUTH HILLS LIGHT RAIL TRANSIT SYSTEM INCLUDING THE DOWNTOWN SUBWAY KNOWN AS THE "T" WHICH HAS BEEN A TREMENDOUS SUCCESS SINCE ITS OPENING IN JULY 1985.
2. THE COMPLETION OF THE MARTIN LUTHER KING, JR. EAST BUSWAY, WHICH NOW CARRIES SOME 30,000 RIDERS DAILY AND HAS PROVEN TO BE AN UNQUALIFIED SUCCESS.
3. THE REHABILITATION OF THE HISTORIC 114-YEAR OLD MONONGAHELA INCLINE WHICH SINCE ITS REOPENING IS CARRYING ALMOST 1 MILLION PASSENGERS PER YEAR.
4. THE PLACEMENT IN SERVICE OF 410 NEW TRANSIT BUSES AS PART OF THE PENNSYLVANIA STATEWIDE BUS POOL PURCHASE.

THESE IMPROVEMENTS WOULD NOT HAVE BEEN POSSIBLE WITHOUT STRONG FEDERAL SUPPORT.

PROGRAM FUNDING

THE ADMINISTRATION'S PROPOSED FY 1987 BUDGET CALLS FOR AN OVERALL REDUCTION IN THE FEDERAL MASS TRANSIT PROGRAM OF 67 PERCENT AND THE ELIMINATION OF FEDERAL OPERATING ASSISTANCE FOR LARGE URBAN AREAS. THUS, THE CURRENT PROGRAM OF $4.0 BILLION A YEAR WOULD SHRINK TO $1.2 BILLION AND WOULD BE FUNDED FROM THE PENNY GAS TAX THAT IS PAID INTO THE MASS TRANSIT ACCOUNT OF THE HIGHWAY TRUST FUND. THE ADMINISTRATION ALSO PROPOSES TO RESTRUCTURE THE TRANSIT PROGRAM BY MERGING IT WITH CERTAIN ELEMENTS OF THE FEDERAL HIGHWAY PROGRAM TO FORM AN URBAN MOBILITY BLOCK GRANT WHICH, IN THEORY, STATES AND LOCAL AREAS COULD USE TO FUND BOTH TRANSIT AND HIGHWAY PROJECTS.

I WOULD LIKE TO ADDRESS EACH OF THE ELEMENTS OF THE ADMINISTRATION'S PROPOSED BUDGET -- FIRST, WITH REGARD TO OPERATING ASSISTANCE.

ELIMINATION OF FEDERAL OPERATING ASSISTANCE WOULD BE A SERIOUS BLOW TO THE PORT AUTHORITY AND TO ALL TRANSIT SYSTEMS ACROSS THE COMMONWEALTH OF PENNSYLVANIA. PAT CURRENTLY RECEIVES ABOUT $10 MILLION A YEAR IN FEDERAL OPERATING ASSISTANCE OR APPROXIMATELY 7% OF ITS OPERATING BUDGET. THIS REPRESENTS A REDUCTION OF NEARLY 40 PERCENT SINCE FY 1981 WHEN FEDERAL OPERATING AID TO PAT PEAKED AT $16 MILLION. SINCE THAT TIME, PAT HAS HAD TO RAISE FARES AND CUT SERVICE IN ORDER TO COPE WITH REDUCED FUNDING. IF FEDERAL OPERATING ASSISTANCE IS ELIMINATED, PAT, ONCE AGAIN, WILL BE FORCED TO RAISE FARES AND REDUCE SERVICE. A LOSS OF $10 MILLION FROM PAT'S OPERATING BUDGET WOULD REQUIRE ONE OR A COMBINATION OF THE FOLLOWING ACTIONS:

1. AN INCREASE IN BASE FARE OF 25 CENTS FROM $1.00 TO $1.25. THIS IS NOT A PRACTICAL OPTION SINCE PAT ALREADY HAS ONE OF THE HIGHEST BASE FARES IN THE NATION. IT WOULD ALSO BE COUNTERPRODUCTIVE AS HIGHER FARES GENERALLY MEAN FEWER RIDERS.
2. A REDUCTION IN TRANSIT SERVICE BY ABOUT 10 PERCENT OR SOME 3 MILLION MILES OF SERVICE YEARLY AND THE LAYOFF OF 250 EMPLOYEES. THIS WOULD INCLUDE A REDUCTION IN THE SERVICE LEVELS OF THE ACCESS SYSTEM WHICH CARRIES OVER 100,000 ELDERLY AND HANDICAPPED RIDERS MONTHLY. IN AUGUST, 1985 PAT REDUCED SERVICE SYSTEM-WIDE BY AN AVERAGE 6 PERCENT WHICH WAS THE LARGEST SINGLE SERVICE CUT IN PAT'S HISTORY. FURTHER REDUCTIONS WOULD BE COUNTERPRODUCTIVE AND A HARDSHIP TO THE THOUSANDS OF RIDERS WHO DEPEND ON PAT DAILY.

AS YOU CAN SEE, THE LOSS OR SIGNIFICANT CUTS IN FEDERAL OPERATING AID WOULD FURTHER EXACERBATE PAT'S PRECARIOUS FINANCIAL CONDITION AND WOULD SERIOUSLY IMPAIR PAT'S ABILITY TO MAINTAIN CURRENT SERVICE LEVELS AT REASONABLE FARES.

MOREOVER, THE ADMINISTRATION'S BUDGET PROPOSAL CALLS FOR ELIMINATION OF FEDERAL REVENUE SHARING FUNDS WHICH GO TO STATE AND LOCAL GOVERNMENTS FOR VARIOUS PROGRAMS. THESE FUNDS ARE THE SOURCE OF $12 MILLION OF THE $17 MILLION WHICH ALLEGHENY COUNTY GRANTS TO THE PORT AUTHORITY FOR OPERATING PURPOSES EACH YEAR. THUS, PAT STANDS TO LOSE $10 MILLION IN DIRECT FEDERAL OPERATING AID AND AN ADDITIONAL $12 MILLION IF FEDERAL REVENUE SHARING FUNDS ARE ALSO CUT. THERE IS NO PRACTICAL WAY FOR PAT TO MAKE UP A $22 MILLION SHORTFALL IN A SINGLE YEAR.

I NOW WOULD LIKE TO DISCUSS THE IMPACTS OF THE ADMINISTRATION'S BUDGET PROPOSAL ON TRANSIT CAPITAL ASSISTANCE. AT PRESENT, FEDERAL MASS TRANSIT CAPITAL ASSISTANCE IS DISTRIBUTED PRIMARILY FROM TWO PROGRAMS: THE SECTION 9 FORMULA GRANT PROGRAM WHCH IS DISTRIBUTED NATIONALLY TO ALL URBANIZED AREAS REGARDLESS OF NEED AND THE SECTION 3 DISCRETIONARY CAPITAL PROGRAM WHICH FUNDS MAJOR TRANSIT IMPROVEMENTS ACROSS THE NATION. UNDER THE ADMINISTRATION'S PROPOSED FY 1987 BUDGET, THE SECTION 3 PROGRAM WOULD BE TERMINATED, LEAVING $1.2 BILLION NATIONALLY FOR MASS TRANSIT CAPITAL PROGRAMS DISTRIBUTED SOLELY BY FORMULA REGARDLESS OF NEED.

ELIMINATION OF THE SECTION 3 PROGRAM WOULD MEAN THAT PAT COULD NO LONGER UNDERTAKE MAJOR CAPITAL IMPROVEMENTS INCLUDING PLANNED PROJECTS SUCH AS THE SPINE LINE WHICH WOULD EXTEND OUR SUCCESSFUL LIGHT RAIL TRANSIT SYSTEM TO THE NORTH SIDE AND

Senator HECHT. Thank you very much, Mr. Millar.
Senator Lautenberg.

STATEMENT OF FRANK LAUTENBERG, U.S. SENATOR FROM THE STATE OF NEW JERSEY

Senator LAUTENBERG. Thank you very much, Mr. Chairman, for permitting me to break in. I apologize to the witnesses also. As usual with everyone here, I'm part of another committee.

Mr. Chairman, it's a pleasure for me to appear this morning to testify in support of adequate Federal assistance for mass transportation. As a former member of this subcommittee, I know that this committee is committed to federally assisted Mass Transit Programs.

They are vital to urban economies and the quality of life in densely populated areas.

This year the committee will make an historic decision about the future of transportation in the Nation's cities. Will our urban transportation systems continue to receive the assistance necessary to move people and commerce or will they be subject to false economies in the name of fiscal constraint that will doom them to failure and nip in the bud the revitalization underway in so many of our Nation's older cities?

I ask the committee to continue its support of these programs, making improvements where productive, but continuing to support investment in this vital link in our infrastructure.

In 1982, in an extraordinary postelection session, the Congress approved landmark legislation to assist highway construction and mass transit rehabilitation. With the enactment of the Surface Transportation Assistance Act of 1982, for the first time, mass transit claimed an exclusive independent source of revenue, one-fifth of the 5 cent increase in the gas tax was dedicated to mass transit. Mass transit was no longer the stepchild of our federally assisted national transporation networks.

The impetus behind the Surface Transportation Assistance Act stemmed from a deep concern over the existing infrastructure of our Nation's cities and towns. Collapsing bridges, water main breaks, and streets marred with potholes were commonplace in New Jersey and other States. When New Jersey retired cars from our passenger rail system they were cars designed by Thomas Edison. When we retired cars, they didn't go to the salvage yard; they went to the Smithsonian.

The commitment of only a few years ago to invest in our urban and rural infrastructure is now being tested by Gramm-Rudman budget cuts. But for mass transit it did not take long for the storm clouds to gather. The ink was hardly dry on the historic legislation in 1982 before the administration proposed unraveling it and turning its back on assistance to mass transit and Federal operating assistance.

If 1982 marked a high point for investment in our infrastructure, 1985 raised the spectre of its abandonment.

Mr. Chairman, mass transit budgets have been subject to political cycles. In fiscal year 1981 Congress appropriated $4.6 billion for mass transit assistance. After the 1982 election the incoming administration scaled down a $5.1 billion budget request by the Carter administration asking for $3.5 billion, a 30-percent decline. The Congress appropriated $3.7 billion. The election year budget for 1984 was a $4 billion request for 1985 but the postelection fiscal year 1986 budget request was a drastic reduction from $4 billion down to $1.3 billion. The Congress provided $3.7 billion.

The proposed retrenchment of mass transit assistance continues this year. The administration has requested only $1.2 billion, a 66-percent cut from the fiscal year 1986 funding.

Mr. Chairman, we cannot ask our transit authorities to continue to operate in this erratic and uncertain environment. Since 1982 Congress has held the line and it's critical that we do so again this year. We've got to put this issue to rest. We can't blow hot and cold. We need to provide transit officials with assurances that they deserve and with which they can plan. We are not going to pull the plug on mass transit.

Contemplated thus, mass transit assistance this year is especially threatened. States and localities are not only faced with the prospect of massive transit assistance cuts, they are also faced with major reductions in Community Development Block Grant funds and revenue sharing, vital to our communities.

Federal abandonment of operating assistance for mass transit systems on top of these other cuts is just too much to handle. You, Mr. Chairman, know from your experience as a mayor and as an official of the League of Municipal Officials, know how difficult it is for these cities to operate without this help.

It will either result in massive fare hikes and riders dropping off the system or property tax increases in cities already suffering from declining tax bases.

Mr. Chairman, the administration opposes Federal assistance to mass transit because it doesn't believe that this is a Federal responsibility. The question DOT raises is why should someone from Nevada or Alaska support mass transit for people in Detroit, Philadelphia, Seattle, or Los Angeles? These critics argue that mass transit is a local responsibility.

Mr. Chairman, the question belies the reality that we are one Nation. Many of our Western States have great distances between their population centers and require modern highways to move people and goods. The Federal Government assists in their construction, as it should. Some of our States and local communities will be cut off from air service unless the Federal Government assures its continuation. For those States, we are trying to provide essential air service.

Mr. Chairman, our most densely populated States and cities require mass transit to efficiently move people and goods. Mass transit is just as essential to the economies of New Jersey, New York, Illinois, and California as highways are to Nevada and Idaho, and air service is to Alaska, North Dakota, and Utah.

To underscore the importance of mass transit in the Northeastern United States, I bring to your attention the efforts of the Port Authority of New York and New Jersey, a bistate agency. The port authority, in conjunction with mass transit agencies of New Jersey and New York is trying to cope with the vast numbers of people who try to get to work each morning in one of the Nation's most densely populated areas. Their answer to the problem of urban mobility is the expansion and improvement of mass transit.

That conclusion is embraced by the business communities in New York and New Jersey.

Mr. Chairman, this struggle to improve mass transit, so vital to the quality of life in densely populated areas, is going to be determined to a great extent by the actions of this committee. We cannot permit the headlines of 1987 to read that Congress abandons the Federal role in mass transit. The Federal Government has to remain a partner in this struggle.

I urge the members of this subcommittee to hold the line against any further retrenchment in Federal aid to mass transit. The ability of cities and States throughout the Nation to function economically depends on your decision.

In closing, I'd like to make two recommendations that I hope the committee can give serious consideration to during your work on the mass transit reauthorization bill this year.

First, we've got to preserve mass transit operating assistance. The administration recommended in its budget request this year that operating assistance only be available for small communities. Mr. Chairman, a fare increase in New Jersey is as painful to those who have to pay it as those who have to pay it elsewhere. There isn't any justification for this kind of distinction.

Second, the funds available for mass transit in the mass transit account of the Highway Trust Fund should be spent for the purposes for which they were raised. The administration requested $1.6 billion from OMB in its original request for fiscal year 1987 for mass transit out of the mass transit account of the Highway Trust Fund. Apparently, the Department of Transportation felt that the trust fund could safely sustain that level of expenditure. When OMB was done, however, with DOT's budget request, it contained only $1.2 billion.

Mr. Chairman, the mass transit account can absorb an expenditure of at least $1.6 billion. I support general revenue support as well for mass transit, but at a time when we are asked to freeze on reduced general revenue support for mass transit, OMB's recommendation to withhold the expenditure of funds from the trust fund's mass transit account which are collected from dedicated taxes, is unacceptable.

Mr. Chairman and members of the committee, I appreciate the opportunity to present my views here today.

Senator HECHT. Thank you.

Senator D'Amato, did you have an opening statement?

OPENING REMARKS OF SENATOR D'AMATO

Senator D'AMATO. Mr. Chairman, I could not be with you at yesterday's hearing because I was in New York attending the funeral of my colleague, Congressman Addabbo. I thank you for having submitted my statement for inclusion in the hearing record.

Mr. Chairman, I would like to say that the work of this committee is terribly important to our large and small urban centers and to rural areas as well. The maintenance of a viable Federal transit package is something that I think is of the utmost importance if we're going to keep our mass transportation program working to move people, and to keep jobs in our transit-dependent urban centers.

Having said that, I'll simply say this, Mr. Chairman. I and my staff have been working on a mass transit reauthorization package that I would hope we could work on together. We hope to have it available within the next week to submit to you and to the other members of this committee. In my judgment, this proposal represents a middle ground between the administration's views and the views of many of us in the transit-dependent urban areas of this Nation. The bottom line is that this proposal is something that I think is doable.

So, Mr. Chairman, again let me thank you for having submitted my statement yesterday. I hope that we'll be able to work together on this subcommittee and on the full committee in approving a viable transit reauthorization package to cover the next 4 years.

Senator HECHT. Thank you very much.

Senator Cranston, did you have an opening statement?

Senator CRANSTON. No, I do not. I made an opening statement yesterday. I thank you for the opportunity.

I would like to welcome Deane Dana from Los Angeles to this panel. I'm glad to see you today. I'm sorry I won't be here to hear all the testimony. I have to be at the Senate when we convene at 10 o'clock.

Senator HECHT. Most politicians have an opening statement. I had one yesterday and I had one today. You could have one, too.

Senator CRANSTON. I'm going to spare the people present.

Senator HECHT. Senator Dixon.

OPENING STATEMENT OF SENATOR DIXON

Senator DIXON. Mr. Chairman, this is the second day of oversight hearings on issues related to the reauthorization of Federal public transit programs. We have a distinguished and expert group of witnesses before the committee today and I look forward to receiving their testimony.

I am particularly pleased to see a representative from Illinois among this morning's witnesses. I have the greatest respect for Bill Volk's transit experience and expertise and I commend him to the committee, and I might say, Mr. Chairman, that Mr. Volk is not from Chicago. He represents the Champaign area and I think the transit system there probably serves in Champaign-Urbana, the seat of our great University of Illinois, perhaps 100,000 people or so.

I stated my general views on reauthorization of Federal transit programs in remarks I made at yesterday's hearing. I will not take the time of the committee to restate them in detail again today. I would just like to briefly say that I support reauthorization of Federal transit programs.

The Transit Program has not been without problems but its overall record is one of which we can be proud. I know transit will have to live within a budget that meets the Gramm-Rudman-Hollings deficit reduction targets. Transit has been cut already. It is over 24 percent below its 1981 funding levels. But I know transit recipients are willing to do their share to bring down budget deficits. I do not believe, however, that transit should be called upon to bear a disproportionate share of the budget cutting sacrifice as the administration proposes.

Cuts of over 60 percent amount to gutting Federal support for mass transit. Frankly, I hope we will be able to quickly report a transit bill with only minor fine tuning that will meet congressional budget guidelines and which will command bipartisan support.

I look forward, Mr. Chairman, to working with all my colleagues on the committee to achieve that objective.

Senator HECHT. Thank you, Senator.

Senator Lautenberg has just expressed that he has other committees meeting at the same time and so he had to leave.

Let's go right on. Mr. William Volk.

STATEMENT OF WILLIAM L. VOLK, MANAGING DIRECTOR, CHAMPAIGN-URBANA MASS TRANSIT DISTRICT, URBANA, IL

Mr. VOLK. Mr. Chairman, my name is William L. Volk and I am managing director of the Champaign-Urbana Mass Transit District in Illinois. The district is a small system with 50 buses serving a community of approximately 100,000.

I am pleased to be here today to testify on behalf of my transit system. The views I will express with respect to reauthorization are also those of the Illinois Public Transportation Association, which members include the Chicago Transit Authority and the Regional Transportation Authority in Chicago, and most other Illinois systems. My comments also reflect the views of the bus transit caucus, which is a group of bus systems from across the country who have been urging a balanced Federal Transit Program.

I hope to accomplish two things in my testimony today. The first is to give this subcommittee a flavor of what is happening in small transit systems today so you can better understand what Federal assistance has accomplished. Second, I will give you my views as a transit manager on key issues in the reauthorization of the Federal transit programs.

GROWTH OF SMALL SYSTEMS

One of the unanticipated benefits of the UMTA program over the years has been the tremendous growth of small systems in the country. Throughout America, such cities have been able to create and expand transit services, bringing economic development, personal mobility, and a better quality of life to millions of people. The growth of transit usage in smaller systems has been impressive. Between 1979 and 1983, for example, the rate of growth of passenger trips on small systems of less than 250 buses was three times the rate of growth of transit generally.

The Champaign-Urbana system has been typical of this phenomenon. The advent of Federal operating assistance in 1975, along with increased local and State support, resulted in service improvements that boosted ridership from 700,000 in 1974 to more than 2.8 million last year. Good transit has increased access to jobs and educational opportunities in our community. As well, access to basic transportation has been afforded to the disabled as a result of our totally accessible system. Nearly 5,000 trips by the disabled in wheelchairs were taken last year.

The point I want to bring home is that Federal assistance has served as a catalyst for the development of transit service for the country. Without it, many services would never have been started or would have been lost long ago. Maintaining Federal assistance at least at current levels is vital for the continued development of transit in both large and small urban areas in this country. While some argue that there is no Federal interest in local transit, I would strongly disagree. There is a clear national interest in strengthening our communities through rational transportation systems, better growth patterns, and an improved economic climate.

I'd like to make a simple point about the continuation of the Transit Program. We obviously face a huge deficit and we all must do our part to control spending and transit is no exception. In the last few years, however, Federal transit spending has been reduced 25 percent. But slashing funds for transit 70 percent as the administration would have you do is shortsighted and endangers the future viability of our urban areas. This society must be able to manage its financial resources so that a fair portion of them can be dedicated to activities which improve the communities where most of our population resides.

Transit in the United States is a diverse industry reflecting a tremendous variety of services, problems, and opportunities. The needs are so varied that a Federal program must be flexible and responsive so that scarce resources can be used wisely.

CURRENT PROGRAM IS A FLEXIBLE AND EFFECTIVE TOOL

The current program, developed over many years to address these diverse needs, has been a flexible and effective tool. The combination of formula funds to meet ongoing needs, together with discretionary funds to meet special needs has been worthwhile and should be continued.

A key element of the UMTA program has been the availability of formula funds for operating assistance. I believe it is imperative to retain current levels of operating assistance. Contrary to the rhetoric of recent years, the operating assistance program has not been a conduit for excessive wage agreements; most transit systems have learned how to be hard bargainers since in every case the major share of operating costs is paid for out of farebox revenues or local subsidies. The real value and importance of Federal operating assistance is that it is the only Federal money available for true system maintenance. All other Federal grant assistance is keyed to major construction or acquisition projects. Operating assistance is used to protect existing investments, for fleet maintenance, replacement parts, and the hardware necessary to keep buses and other equipment operating over a full lifespan. Without operating assistance or some similar category of grant, there is less incentive for adequate maintenance, leading to greater capital costs down the road.

Operating assistance has been consistently reduced over the last several years of the program while transit operating costs have continued to increase. Even if some transit systems may have been guilty of the charge of overreliance of Federal operating assistance, they have had to change their ways.

Senator HECHT. Excuse me. Your time is up. I won't shut you off, but please try and summarize within a minute.

Mr. VOLK. For many systems, however, a cutoff or drastic reduction of operating assistance would wreak havoc on their budgets and services.

There are some simple modifications to the program I would recommend in the long-term interest of preserving the nature of the program.

First is a simply change to assure that the transit program can continue to help meet the needs of both small and large urban areas. Simply put, both the formula and the discretionary programs should share in the existing funding sources in a fair ratio.

Making a simple change by moving some of the gas tax money into section 9 would have positive benefits for the program. It would assure that all transit systems in the States would share directly in the mass transit account of the Highway Trust Fund, an account they are all paying into now but are not sharing in.

The section 9 program would no longer be excessively exposed to direct cuts in general revenues, and the section 3 program would be able to continue at least at current levels, assuring the continuation of a significant discretionary program.

The second area of legislative change I would recommend involves a reasonable limitation on UMTA's ability to mandate a local process of choosing service or maintenance providers. For the past year or so UMTA's major concern has been promoting greater private sector involvement in the transit industry, a concept we have no quarrel with and, in fact, local areas are doing it, but they should continue to have that discretion.

Mr. Chairman, on behalf of the Illinois Public Transit Association I would like to make one additional observation. The Interstate Transfer Transit Program is of prime importance to the State of Illinois. The Chicago region has approximately 30 percent of the unobligated transit balance. This program was recently impacted by the $1.7 billion Westway trade-in. IPTA strongly urges the committee to authorize a sufficient level of funding to complete the program by the end of 1990 as originally contemplated. If this is not possible, an inflationary adjustment should be provided to compensate for the delay in these transit projects.

In closing, I would like to thank the chairman and the members of the subcommittee for their continued interest in the Transit Program. I want to particularly thank my Senator, Alan Dixon, for his dedicated support of transit. I know that he understands many of the concerns expressed here and is preparing legislation that would address them.

I would be happy to answer any questions by members of the subcommittee and thank you for your interest.

[The complete prepared statement follows:]

EASTWARD TO THE OAKLAND AND SQUIRREL HILL AREAS OF THE CITY OF PITTSBURGH; AN EXTENSION OF THE HIGHLY SUCCESSFUL MARTIN LUTHER KING, JR. EAST BUSWAY AND RECONSTRUCTION OF STAGE II OF THE SOUTH HILLS LIGHT RAIL TRANSIT PROJECT WHICH WOULD REBUILD THOSE PORTIONS OF THE TROLLEY SYSTEM NOT INCLUDED IN THE CURRENT LIGHT RAIL PROJECT. ADDITIONALLY, MORE MODEST AND ROUTINE CAPITAL IMPROVEMENTS WOULD BECOME MORE DIFFICULT TO MAKE AS CAPITAL FUNDS WOULD BECOME MORE SCARCE. FOR EXAMPLE, PAT'S GARAGE REHABILITATION PROGRAM, ITS TROLLEY AND RAIL REHABILITATION PROGRAMS, BUS REPLACEMENTS AND IMPROVEMENTS TO PHYSICAL PLANT AND EQUIPMENT WOULD HAVE TO BE DEFERRED OR ELIMINATED AS A RESULT OF THE PROPOSED FUNDING CUTS. THE PREVIOUS FEDERAL INVESTMENTS THEY ARE DESIGNED TO PROTECT WOULD BE PLACED IN JEOPARDY.

THE SENATE BUDGET COMMITTEE, ON THE OTHER HAND, HAS APPROVED A FREEZE ON CAPITAL ASSISTANCE AT FY 1986 CONTINUING RESOLUTION LEVELS. WHILE ACCEPTABLE, IT IS THE BARE MINIMUM ALLOWABLE IF SYSTEMS ARE TO MAINTAIN SAFE OPERATIONS FOR THE TRANSIT RIDING PUBLIC.

PROGRAM STRUCTURES

I WOULD NOW LIKE TO COMMENT ON THE ADMINISTRATION'S PROPOSAL TO COMBINE THE TRANSIT AND HIGHWAY PROGRAMS INTO AN URBAN MOBILITY BLOCK GRANT. IN THEORY, THIS IS AN APPEALING CONCEPT. IT DOES MAKE SENSE THAT TRANSIT AND HIGHWAY NEEDS BE CONSIDERED IN THE BROADER CONTEXT OF AN AREA'S TRANSPORTATION

NEEDS. HOWEVER, I AM CONCERNED THAT UNDER THE CURRENT PROPOSAL NEITHER PUBLIC TRANSIT NOR HIGHWAYS WOULD RECEIVE THE FUNDING REQUIRED IF OUR COUNTRY'S CITIES AND URBAN AREAS ARE TO REMAIN VIABLE. THE ADMINISTRATION'S PROPOSAL WOULD PROVIDE $3.4 BILLION FOR BOTH URBAN TRANSIT AND HIGHWAYS IN FY 1987. THIS COMPARES TO $4.0 BILLION FOR PUBLIC TRANSIT ALONE IN FY 1986. THIS IS NOT ENOUGH.

THERE HAVE ALSO BEEN DISCUSSIONS ABOUT USING A PORTION OF THE SECTION 3 DISCRETIONARY TRUST FUNDS TO AUGMENT THE SECTION 9 PROGRAM. I BELIEVE THE LONG-TERM GOAL MUST BE TO REMOVE TRANSIT FUNDING FROM GENERAL FUND REVENUES TO A STABLE PREDICTABLE FUNDING SOURCE SUCH AS A TRANSIT TRUST FUND. HOWEVER, SUCH A MOVE MUST INCLUDE ADEQUATE FUNDING AND CANNOT BE USED AS AN EXECUSE TO CUT NEEDED TRANSIT FUNDS.

TRANSIT FINANCING

I UNDERSTAND THE HOUSE TAX REFORM BILL HAS ELIMINATED PUBLIC TRANSPORTATION PROVIDERS FROM UTILIZING TAX-EXEMPT FINANCING AND THAT THE SENATE IS NOW ADDRESSING THIS ISSUE.

I BELIEVE THAT THE FEDERAL TAX LAWS WHICH CURRENTLY PERMIT PUBLIC NON-PROFIT ENTITIES SUCH AS PAT TO ISSUE TAX-EXEMPT BONDS AND NOTES FOR CAPITAL FINANCING MUST BE CONTINUED. FOR EXAMPLE, PAT THROUGH THE USE OF ADVANCE CONSTRUCTION NOTES, WAS

ABLE TO KEEP ITS STAGE I SOUTH HILLS LIGHT RAIL TRANSIT CONSTRUCTION ON AN UNINTERRUPTED SCHEDULE AND ELIMINATE MILLIONS OF DOLLARS OF INCREASED COSTS TO THE FEDERAL GOVERNMENT THAT WOULD HAVE RESULTED FROM DELAYS AWAITING THE RECEIPT OF FEDERAL GRANT FUNDS.

WE HAVE BEEN EXPLORING THE POSSIBILITY OF UTILIZING GRANT ANTICIPATION NOTES (GANS) IN OUR SECTION 9 PROGRAM TO FURTHER REDUCE COSTS AND BETTER EXECUTE OUR PROGRAMS. WE STRONGLY SUPPORT THE CONCEPT OF MULTI-YEAR CONTRACTING UNDER BOTH THE SECTION 3 AND SECTION 9 PROGRAMS AND HOPE THAT THIS COMMITTEE WILL CONSIDER THOSE IDEAS IN THE FORMATION OF A NEW REAUTHORIZING BILL.

ADDITIONALLY, THE RETENTION OF SAFE HABOR LEASING TRANSACTIONS FOR PUBLIC TRANSPORTATION SHOULD BE A HIGH PRIORITY. I STRONGLY URGE THIS COMMITTEE TO SUPPORT TAX REFORM LEGISLATION WHICH INCLUDES THESE ISSUES.

IN CLOSING, IT MUST NOT BE FORGOTTEN THAT FEDERAL ASSISTANCE TO PUBLIC TRANSPORTATION, BOTH OPERATING AND CAPITAL, HAS MADE AN ENORMOUS CONTRIBUTION TO THE MOBILITY OF OUR CITIZENS AND TO THE ECONOMIC DEVELOPMENT AND VITALITY OF THE NATION. THIS ROLE AND COMMITMENT MUST BE MAINTAINED. EXISTING MASS TRANSIT LEGISLATION EXPIRES AT THE END OF FY 1986. IT IS IMPERATIVE THAT NEW AUTHORIZING LEGISLATION BE ENACTED THAT MAINTAINS TRANSIT FUNDING AT LEAST AT THE LEVELS CONTAINED IN THE FY 1986 CONTINUING RESOLUTION AND RETAINS THE BROAD RANGE

OF FEDERAL TRANSIT ASSISTANCE PROGRAMS -- OPERATING, CAPITAL, RESEARCH, PLANNING AND DEMONSTRATION.

THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY. I WILL BE GLAD TO ANSWER ANY QUESTIONS YOU MAY HAVE.

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STATEMENT OF WILLIAM L. VOLK
MANAGING DIRECTOR, CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
BEFORE THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

April 16, 1986

Mr. Chairman, my name is William L. Volk, and I am Managing Director of the Champaign Urbana Mass Transit District in Illinois. The District is a small transit system of 50 buses serving a community of just over 100,000 in population

I am pleased to be here today to testify on behalf of my transit system. The views I will express with respect to reauthorization are also those of the Illinois Public Transportation Association, representing the CTA and RTA of Chicago, and most other Illinois transit systems. My comments also reflect the views of the Bus Transit Caucus, a group of bus systems from across the country who have been urging a balanced Federal transit program.

Mr. Chairman, I hope to accomplish two things in my testimony today. The first is to give this Subcommittee a flavor of what is happening in small transit systems today, so you can better understand what Federal assistance has accomplished. Second, I will give you my views as a transit manager on key issues in the reauthorization of the Federal transit program.

The Role of Small Transit Systems

One of the unanticipated benefits of the UMTA program over the years has been the tremendous growth of mass transit in smaller communities. Throughout America, such cities have been able to create and expand transit services, bringing economic development, personal mobility, and a better quality of life to millions of people. The growth of transit useage on smaller systems has been impressive between 1979 and 1983, for example, the rate of growth of passenger trips on small systems (less than 250 buses) was three times the rate of growth of transit, generally.

The Champaign Urbana system has been typical of this phenomenon. The advent of Federal operating assistance in 1975, along with increased local and State support, resulted in service improvements that boosted ridership from 700,000 in 1974 to more than 2.8 million last year. Good transit has increased access to job and educational opportunities in our community. As well, access to basic transportation has been afforded to the disabled as a result of our totally accessible system. Nearly 5,000 trips by the disabled in wheelchairs were taken last year.

The point I want to bring home to this Subcommittee is that Federal assistance has served as a catalyst for the development of transit service throughout the country. Without it, many services would never have started or would have been lost long ago. Maintaining Federal assistance at least at current levels is vital for the continued development of transit in both large and small urban areas in this country. While some argue that there is no Federal interest in local transit, I would strongly disagree. There is a clear national interest in strengthening our communities through rational transportation systems, better growth patterns, and an improved economic climate.

The Need for Reauthorization

I would like to say a brief word about the continuation of the transit program. Most witnesses will be making the case for reauthorization. You will hear a lot of numbers and statistics. Let me try to make a very simple point. We face a huge deficit. We must all do our part to control spending, and transit is no exception. In the last few years, Federal transit spending has been reduced 25 percent. But slashing funds for transit 70 percent as the Administration would have you do is shortsighted and endangers the future viability of our urban areas. This society must be able to manage its financial resources so that a fair portion of them can be dedicated to activities which improve the communities where most of our population resides.

The Shape of the UMTA Program

Transit in the United States is a diverse industry. From the massive transit network of the New York area, to the ambitious Los Angeles rail program, to the section 18 systems in small towns all over the country, we reflect a tremendous variety of services, problems and opportunities. The needs are so varied that a Federal program must be flexible and responsive so that scarce resources can be used wisely. One program must be able to help existing transit systems replace and modernize aging facilities; to allow systems to provide services where resources are insufficient to meet operating costs; and to help fast growing communities meet transportation needs through judicious investment in new systems.

The current program, developed over many years to address these diverse needs, has been a flexible and effective tool. The combination of formula funds to meet ongoing needs, together with

Senator HECHT. Thank you very much.
Mr. Bolton.

STATEMENT OF MICHAEL P. BOLTON, ANN ARBOR TRANSPORTATION AUTHORITY, ANN ARBOR, MI

Mr. BOLTON. Good morning, Mr. Chairman and members of the subcommittee. My name is Michael Bolton. I'm the executive director of the Ann Arbor Transportation Authority [AATA], a system of 65 vehicles serving an urbanized area of over 200,000 people.

My purpose in being here today is to ask you to renew the commitment that was made more than 20 years ago to urban areas of this country and to reauthorize the Surface Transportation Act of 1982.

Despite what some might say about the Federal Government's role in continued funding and operational assistance being unnecessary and wasteful, it is important to separate the rhetoric from the reality. Transit means mobility, jobs, and business.

You have heard and will hear more from others more versed in the economic impact of the transit dollar. I will leave it to them to weave the facts and numbers into a picture more easily understood by economists and financiers. My comments are about the program and its effect on people.

COMMITTED TO QUALITY SERVICE AT REASONABLE COSTS

At the AATA, we are guided by a commitment to quality service at a reasonable price. After studying all of the successful businesses over the years, we realized that we had to keep the customers satisfied. The customer wants value for the dollar. In our case, the customer is the taxpayer.

In Ann Arbor, we must satisfy the user of the service and the nonuser of the service. Over 50 percent of our funding comes from local sources, the majority of that from a local tax of 2.5 mils which can generate in excess of $3 million. Ninety percent of the people who pay for our service never use it, yet 94 percent of the people surveyed in a telephone poll last year agreed that public transit was necessary to the growth and development of our community.

Because of this strong local support, the AATA has been able to provide levels of service on fixed route and elderly handicapped services which have resulted in the doubling of ridership in 6 years, from 1.8 million rides in 1980 to over 3.6 million rides in 1986.

The AATA is in a position today where it, unlike most of the other transit systems in Michigan, could withstand the loss of Federal funding without serious impacts on service for about 2 years, given the current level of State participation. However, reduction of operating assistance would eventually begin to wear very heavily on the State's already substantial commitment to mass transportation.

The AATA has been able to subcontract appropriate services because of prudent management and direction from a board of directors which asserts public transit is a business which must meet a social need. Because of prudent management, the AATA was able to negotiate an agreement with its union in 1983 which provided for subcontracting of the elderly and handicapped demand-response service. The subsequent subcontracting did not result in a savings; it resulted in 30 percent more service for that segment of our population.

The local decisionmakers like those in many communities are acutely aware of the transit needs in their community. They understand that transit might mean different things to different people on a local level, but they understand on a larger scale that transit contributes to the economic vitality of a community just as roads do.

There should not be a need to choose one or the other as many might have to do if there were an implementation of the proposed block grant concept. Vital economically sound communities are essential for the economic well-being of the country. It makes no sense to endanger that well-being just because a group of individuals with a limited vision wish to trim the budget to suit that vision. The imprudence of such a program is even more obvious when one realizes that this same group of people are proposing reduction or elimination of additional funding sources available to State and local governments.

In addition, while encouraging public-private partnerships, they are recommending the elimination of a few mechanisms such as safe harbor leasing and deductibility of State and local taxes under the guise of tax reform. These mechanisms currently encourage public-private partnerships.

Those who advocate and espouse these changes are too far removed from the facts of the local levels to be making recommendations or decisions. They are undaunted, however, and continue to demonstrate either a lack of understanding of operational and planning issues or a zealous commitment to an ideal that puts them in an adversarial relationship with the people they have a charge to assist.

Under normal circumstances, it would be appropriate to simply fine tune the Urban Mass Transportation Act. If, however, the assault on the program continues at its present pace it may be appropriate to modify the legislation to provide for a commission which would be funded from and direct the obligation of moneys from a mass transit account of the trust fund which would be off budget with a review and reauthorization every 6 years.

Such a commission might then be free to oversee the program as it is supposed to be carried out, essentially as it was mandated.

From my first day of training as a bus driver in Chicago in 1969, I was told that the purpose of transit was to provide safe, reliable, economic service. As the executive director of the Ann Arbor Transportation Authority, neither I nor my staff have forgotten that message. It has been restated in some principles which we have adopted at the AATA. Essentially, respect the individual, give quality customer service, and commit to excellence. Those principles have worked for IBM. They are working for us. And if you let them, they will let this program work for you.

Once again, thank you for the privilege and opportunity to address you today.

[The complete prepared statement follows:]

Senator HECHT. Thank you very much.
Mr. Dana.

STATEMENT OF DEANE DANA, CHAIRMAN, LOS ANGELES COUNTY TRANSPORTATION COMMISSION, LOS ANGELES, CA

Mr. DANA. Good morning, Mr. Chairman. My name is Deane Dana and I am the fourth district supervisor in Los Angeles County and I'm here as chairman of the Los Angeles County Transportation Commission to urge expeditious passage of legislation to reauthorize the Surface Transportation Act of 1982. I appreciate this opportunity to share the commission's views with the subcommittee. I will give a brief summary of my written testimony and then answer several of the questions you have asked regarding program funding levels and program design.

In 1976, the California Legislature created a county transportation commission to coordinate and establish transportation policy and priorities for the county through allocation of available Federal, State, and local funds.

PROPOSITION A INITIATIVE

To promote local transit development financing the commission won voter approval in 1980 for a one-half-cent sales tax increase and the $300 million in annual revenue from the ballot initiative, known as proposition A, are dedicated to reducing bus fares, local transit improvements, and also rail transit construction.

Through proposition A Los Angeles County has clearly demonstrated a willingness to share the financability for sustaining and developing transit services.

However, it is also very clear that the need for strong Federal funding commitment remains if we are to meet current and future transit demands.

Thus, it is imperative that Congress approve a transportation reauthorization bill which recognizes the enormous transit needs of large urban areas such as Los Angeles County.

Proposition A funds reduced bus fares for 3 years during which ridership increased more than 40 percent. When fares had to be increased, ridership dipped only 5 percent. In bus transit alone, the county is anticipating expenditures over $600 million in fiscal year 1986. With proposition A, the voters also approved development of a 150-mile rail system with 13 high-priority corridors. The first two lines are the Metro Rail project, the heavy rail line, and the Long Beach-Los Angeles light rail project. The Long Beach-Los Angeles line is already under construction and will be locally funded. Work is also progressing on the Century Freeway/Transit Way which will be constructed in the median of the new freeway and is also locally funded.

The Long Beach and Century lines represent 40 miles of light rail construction. The remaining corridors are in various stages of analysis by the commission.

Metro Rail, the backbone of the countywide rail system, is the only line now under construction which seeks Federal funds. These section 3 discretionary program funds are critical to the timely and cost-effective development of the entire system.

discretionary funds to meet special needs has been worthwhile and should be continued.

A key element of the UMTA program has been availability of formula funds for operating assistance. I believe it is imperative to retain current levels of operating assistance. Contrary to the rhetoric of recent years, the operating assistance program has not been a conduit for excessive wage agreements; most transit systems have learned how to be hard bargainers since in every case the major share of operating costs is paid for out of farebox revenues or local subsidies. The *real* value and importance of Federal operating assistance is that it is the only Federal money available for true system maintenance. All other Federal grant assistance is keyed to major construction or acquisition projects. Operating assistance is used to protect existing investments, for fleet maintanance, replacement parts, and the hardware necessary to keep buses and other equipment operating over a full life span. Without operating assistance or some similar category of grant, there is less incentive for adequate maintenance, leading to greater capital costs down the road.

Operating assistance has been consistently reduced over the last several years of the program. Since 1981, Federal funds available for operating assistance have dropped more than 15 percent, while transit operating costs have continued to increase. Even if some transit systems may have been guilty of the charge of over reliance on Federal operating assistance, they have had to change their ways. Federal operating assistance has simply played a smaller role and transit operators are learning to do without.

For many systems, however, a cutoff or drastic reduction of operating assistance would wreak havoc on their budgets and services. Communities developed and expanded services back in the days when the Feds encouraged us to do so with the promise of significant Federal assistance. The result has been a lot more transit services around the country serving a lot more people. Maintaining operating assistance at current levels allows these systems to continue services while adjusting to the reality of a Federal program covering a smaller and smaller portion of costs.

There are some simple modifications to the program I would recommend in the long term interest of preserving the flexible nature of the program. Two specific ideas come to mind.

First is a simple change to assure that the transit program can continue to help meet the needs of both a small bus systems like Champaign-Urbana, while also addressing the huge investment needs of a New York, a Houston, or a Chicago. Simply put, both the formula and discretionary programs should share the existing funding sources in a fair ratio.

As you know, the section 3 discretionary program for major capital projects is currently funded from the penny gasoline tax that goes into the Mass Transit Account of the Highway Trust Fund; the section 9 formula program - the primary source of routine capital and operating assistance for almost every system - is funded solely from general revenues. In the budget crises of recent years, general revenues going to the section 9 program have been significantly reduced from $2.5 billion in 1984 down to $2.0 billion this year. Section 3 funding has remained basically intact, suffering a reduction of about 10 percent. Continued reduction in general revenue funding would have a disproportionate effect on the section 9 program. The ability of most transit systems to meet basic capital and maintenance needs would be seriously endangered.

Many in the transit community have come to view that we should consider a different approach, perhaps pooling the funding sources, and splitting them equitably between the two programs, so that the section 9 formula program would be allocated 70 percent of funds available and the section 3 program would receive 30 percent. This is a ratio similar to that intended by this Subcommittee when it designed the section 9 program in 1982. This change can be accomplished simply by using some of the available Mass Transit Account funds in excess of the current section 3 program level to support the section 9 program. Recent CBO estimates indicate that the Mass Transit Account of the Trust Fund can support higher -- significantly higher - spending levels than currently authorized.

Making this simple change would have three positive benefits for the program:

1. It would assure that all systems in all States would share directly in the Mass Transit Account of the Highway Trust Fund - an account they are all paying into but not now all sharing in;

2. The section 9 program would no longer be excessively exposed to direct cuts in general revenues; the entire program would share in reductions or increases in funding;

3. The section 3 program would be able to continue at least at current levels, assuring the continuation of a significant discretionary program.

It is my understanding that this proposal, known in the industry as "linkage", now has the support of key urban interests, and I believe should be given serious consideration by this Subcommittee.

The second area of legislative change I would recommend involves a reasonable limitation on UMTA's ability to mandate the local process of choosing service or maintenance providers. For the past year or so. UMTA's major concern has been with promoting greater private sector involvement in the transit industry -- a concept I have no quarrel with. In fact, Champaign Urbana has involved private taxi companies in our special services for the past 8 years.

Unfortunately, UMTA has chosen an exceptionally rigorous regulatory approach which involves detailed UMTA review of our everyday service and operational decisions. This is a degree of regulation that I believe has no basis in the UMTA Act and is inconsistent with the philosophy of less government regulation advocated by this Administration -- and also by this Committee when it first proposed the simplified section 9 program a few years ago.

Mr. Chairman, privatization can be the right answer to the need for more efficiency for some transit systems; it can also be the wrong answer.

In an era of decreasing resources, managers do not need to be told that efficiencies are necessary. They certainly should not be told that they have to use any one method to achieve greater efficiency.

While competitive bidding may be the way for some, other systems may prefer to modify services, consolidate routes, negotiate better labor agreements, or use various other approaches to cutting costs. For the entire history of the UMTA program, that choice has been up to the local recipients.

The nature of transit service in a community is not only an operational question, but also a sensitive political issue which must be resolved by each community. The Federal Government has no business dictating a particular process or result.

I suggest that Congress act to replace the "stick" of excessive regulation, which UMTA has wielded zealously of late, with the "carrot" of technical assistance, training and demonstration projects. By earmarking a reasonable portion of the UMTA R&D and technical budgets for these sorts of projects, we could do much to encourage greater private sector participation in transit services.

Mr. Chairman, on behalf of the Illinois Public Transportation Association, I would like to make one additional observation. The Interstate Transfer transit program is of prime importance to the State of Illinois. The Chicago region has approximately 30 percent of the unobligated transit balance. This program was recently impacted by the $1.7 billion Westway trade-in. IPTA strongly urges the Committee to authorize a sufficient level of funding to complete the program by the end of 1990 as originally contemplated. If this is not possible, an inflationary adjustment should be provided to compensate for the delay in these transit projects.

In closing, I would like to thank the Chairman and the members of the Subcommittee for their continued interest in this program. I want to particularly thank my Senator, Senator Alan Dixon, for his dedicated support of mass transit. I know that he understands many of the concerns expressed here, and is preparing legislation that would address them.

I would be happy to answer any questions the members of the Subcommittee might have. Thank you.

TESTIMONY OF

MICHAEL P. BOLTON

ANN ARBOR TRANSPORTATION AUTHORITY, ANN ARBOR, MI.

My purpose in being here today is to ask you to renew the commitment that was made more than 20 years ago to urban areas of this country. A commitment on the part of the federal government to assist in the maintenance of the vitality of the urban areas by providing for viable transportation system and the commitment to preserve a system of rural mobility for smaller communities.

Much has been said in the past few years about the appropriate role of the federal government in domestic programs. Some have said that there is none, they feel that the primary purpose of the federal government is to provide for the common defense. Those who say so limit the vision of the framers of the constitution. They certainly don't appreciate the fact that Betsy Ross' stitchery provided more than stars and stripes. She and others wove a fabric that is composed of many strands, each strand is insignificant and weak when taken on its own. Each strand takes on and provides strength when joined with others. That is the way in which I look at the role of the federal government, it provide the loom which bonds the strands together.

The current administration has for the past five years attempted to remove public transportation assistance from that fabric by saying that transit is a local issue. Concurrently this administration has attempted to reduce other federal funding programs for localities. This approach of tugging at the loose threads will unravel the fabric unless we as the weavers of that fabric hold fast and bind up those loose threads to restore their strength.

In the 1930's, a social compact was established which recognized that the role of government had changed. It provided a balance to the excesses of the free enterprise system which had plunged this country into a devastating depression and had exploited both the human and natural resources of this country. The administration and the Congress should be working to restore that balance which was so important 50 years ago. There have been excesses as the result of federal intrusion or poor management which have wasted the country's human and natural resources. Rather than destroying the compact we must reaffirm its principles and redirect our efforts to maintain the balance of a public-private partnership.

In doing so, let's commit to excellence.

This administration's whole approach to government as expressed in its budget messages, for all its professed business experience, lacks what distinguishes the most successful businesses in this country. This administration's budget strips away any vestiges of pride or ownership which federal employees or grantees might have in the jobs they do. It seeks to punish them for doing what they have been told to do rather than seeking ways to encourage initiative and risk taking. This administration's budget sends the same message to localities. While proclaiming that America is working again on the private enterprise side, it disclaims those improvements which have been made on the public side as being either unnecessary or too costly.

What does all this mean for transit--neither the administration's nor the Senate's budget proposals address the real problem. Transit operating did not create the deficit nor did any other other domestic programs. Yet, they all should share in trying to correct the problem proportionally where possible. If a private business were facing bankruptcy, it would attempt to restructure its debts while aggressively marketing its products. If it wanted to remain in business, it would continue to manufacture its product, provide its service, or retail it merchandise. The budget proposals should be doing that--they should be funding all programs at a base level and providing rewards for techniques and innovation that result in savings. Federal participation in later phases of a project might be based on performance in the initial phase. A positive variance might result in more federal participation. The biggest problem with the budgets is that they limit the potential of the domestic programs while developing materiel and technology which should never be used. The budgets as proposed fund our base nature rather than our future potential. If our communities are to be habitable, they must be hospitable. Otherwise are they worth defending? Efficient mass transit systems can contribute to the vitality of communities, just as an educated and healthy populace can.

Against this background it is easy to understand that an adversarial relationship exists between much of the transit community and the administration and its representatives. The proposed urban mobility block grants, the proposed "privatization" guidance, and the most recent charter regulations are all viewed as ways of trying to do administratively what they have not been able to do legislatively. The proposed block grant approach would have pitted the road people against the transit people for a smaller amount of money than each is currently allocated. Their rationale being let the locals decide which they want. Transit's question is why should they have to decide. Vital economic communities benefit the nation as a whole--good roads provide a means for moving products economically, allowing American businesses to compete. Transit moves the workers who produce the goods and services--each is a strand in the fabric, can one hold without the other?

With regard to the mass transit fund and fair shares of the gas tax. It is important to realize that we are the United States, not equal sized states. It is also important to remember that some states have funded programs in other states for years. What constitutes a "fair share"? Is it a proportion based on population? Is it a portion based on contribution? Is it a portion based on demonstrated need? I would support those who say that there should be a review of the allocation and distribution of the gas tax funds. What must be realized, however, is that there needs to be a balance in the program and the funds must be available, but those involved in making those decisions must be guided by a national perspective not a parochial view nor a zealots goals. As a generalization, for what it is worth, most large systems need capital assistance, most small systems need operating assistance, the mid sized systems may need one or the other or a combination of both. There have been attempts to prey on those different needs and to exploit them to the detriment of the program.

The AATA could probably withstand the loss of all federal operating assistance and not experience any fare increases or service reductions for about two years assuming that the state were able to meet its current commitment. However, there are systems in Michigan which would suffer a more devastating blow. As the State provided assistance to them, it would impair its ability to continue to assist us at the current level. However, without a continued partnership in capital funding, the AATA would begin to experience operating difficulties if it were not able to replace its rolling stock or major components of that rolling stock in a timely manner. Aging vehicles become more expensive to maintain and, unless properly maintained, pose an increased safety problem.

The Urban Mass Transportation Act probably needs to be fine tuned in order to meet the needs of funding under federal budget pressures. The Act provides the necessary framework for a continuing federal role in Mass Transit. Attention needs to be paid to the sections being cited as the basis for "privatization", and those which might conflict with them.

A request was made to suggest incentives that could be established for greater implementation of competitive bidding for operations and maintenance.

Plainly stated the incentive for implementation of competitive bidding for operations and maintenance already exists. It exists at the local level and it is called job security for the General Manager. The decision to competitively bid operations or maintenance is not made in a vacuum. It is not done because of quotas or guidance. It is done and has been done because it is a sound business decision. The AATA had already been subcontracting our service because it was a good business decision. The first effort was Night Ride--a shared ride taxi service operating in the nighttime hours when demand was low. This was initially funded through a demonstration grant. Today it averages 3.6 passengers per service hour. In 1983, we negotiated the ability to subcontract our demand response service. Since then we have contracted with the taxi company to provide Good As Gold--a demand response service for seniors over the age of 65--they pay $1 for a cab trip regardless of how many go on the trip. Original estimates suggested 4,500 rides per month. The taxi company is currently booking in excess of 10,000 rides per month. The

Authority subsidizes the trip for $2.39. We then contracted for A-Ride--a taxi service for the ambulatory handicapped whose disability makes it impossible for them to use the fixed route buses on a regular basis. Before we contracted, we were averaging 1.9 passengers per service hour or 56,000 rides per year at a subsidy of $25 per passenger on our own Dial-A-Ride system. The per ride cost for the cab users is 50¢ for pre-booked trips and $1.00 for same day service. We are averaging 3,950 rides per month on that service. The Authority subsidizes each passenger at $3.80 per ride. On the portion of the A-Ride which we operate--the accessible small buses which carry the mobility impaired, we are now averaging 1.6 passengers per hour, or 1,725 rides per month, at approximately $35.00 per ride. Have we become less efficient--NO, we are providing 30% more service for about the same amount of money. Presently we do all the bookings for the cab company, they do not have the capability nor the expertise to do it yet. The cost of the operators who handle all the dispatching is shown in the cost of the service operated by us directly. This subcontracting effort represents about 6% of our total budget. It provides service to 5% of our riders. We are preparing to contract out the remaining A-Ride service to an operator who can provide a service equal in quality to what we currently provide. We will probably have to acquire the vehicles and lease them to the provider depending on how we can creatively deal with federal cost allocation procedures. All of this is my way of explaining that despite what some may think, there are some systems operating that don't need "guidance" on how to do our jobs, especially when we've already been doing it. A prudent manager and a responsible board of directors are trying to provide the safest, most reliable, most efficient service possible. They are more acutely aware of their funding limits than they are given credit for. The problem with the current program or even the proposed programs is that there is federal intrusion rather than federal oversight. Annual justifications and approvals are limiting. Imagine transit as a business among related businesses which negotiates contracts with suppliers and subcontractors, which is allowed to compete where it can compete fairly without any unfair advantage. Realize that transit meets a social need which is not a profit making venture. Do any of the Fortune 500 companies plan or run their business on a year by year basis the way we do. If they did, they would be bankrupt. After reading Iacocca's description of the failing Chrysler Corporation, it is interesting to draw the rather obvious comparisons with what can happen in this Industry if serious thought isn't given to multi-year grants which would probably have to be funded from a trust fund which is off budget but could be controlled by a periodic reauthorization every six years. The promulgation of guidance could come from a commission similar to that of the Federal Reserve in that its role would be to allow the business to be managed within parameters which are relatively free from intrusive bureaucrats. This guidance would have as its basis more efficiency rather than total elimination of the program.

The current regulatory hurdles which must be straddled are tied to the perceived role of the administrator. The Deputy Administrator has clearly and unequivocally stated that they did not come to Washington to get a job, they came to do a job and that was to eliminate Federal funding for Mass Transit. Although the AATA remains relatively unscathed by this agenda, it must be noted that getting guidance from people who don't know the business does get a little aggravating especially when they attempt to tie your funding to compliance. Whether it is the "privatization" guidance or the "charter rulemaking", or procurement guidelines, it is clear that these people have never dealt with the members of a bargaining unit across the negotiating table. It is clear that their attempts to cavalierly dismiss 13c implications are based more on bravado than fact. It is clear that they have no idea what goes into a fully allocated cost or what portion of a transit systems costs relate to quality or coordination of transit services. It is clear that they will deal with generalities where necessary. Perhaps the best example of this is the promulgation of guidance regarding "privatization" now know as "competition" or, as one of their social darwinist advisers might say, survival of the fittest. Public pronouncements of savings of 20-60% are rampant but the scale of the property or the nature of the services are never discussed. Privately, the statisticians will admit that for systems of 25 or fewer vehicles, the savings might be 5% at the most. It is clear that they have engaged in "transit bashing" by continually pointing to those projects, the same few examples of projects gone wrong, by using statements and figures in one context without regard for all facts in the matter. It is even clearer in the charter area that they do not understand the public service nature of much of the incidental charter work which transit systems do. The guidance seems to be designed to "punish" the entire industry because of the violations of the existing regulations by some operators. One of the most glaring inconsistencies with their own pronouncements supporting efficiency occurs when one looks carefully at "privatization" and charter guidelines. In the one area where public operators truly compete with private operators and compete at the highest cost possible in most cases; this administration proposes to forbid this competition. It seems to say it is alright for a private operator to make a profit on a public subsidy but it is not alright if a public operator makes money which might reduce the need for tax support.

The problem with the guidance and with the attitude of this administration is that it fails to recognize the local conditions which must be taken into account. There are relationships which exist in one locale which might encourage a particular way of doing something. That relationship might not exist somewhere else. 13c might not be a problem in the Southwest, it might be a problem in the West or East. Davis-Bacon might not be a problem in the South, it might be a problem in the North. MBE/DBE compliance might not be a problem in an urbanized area of 1,000,000 or more, it might be a problem in communities under

50,000. The old low bid requirement posed more of a problem for the small systems because of fleet mix, it might not have been as big a problem for the large systems because they had the ability to manage their inventory more effectively. The problems of managing a public service which meets a social need cannot be solved by mandates from people who don't know the business. They certainly will not be solved by those who believe the program itself is the problem.

States and localities will be able to increase contributions to capital programs if the funds are available for other local programs. The private sector would be able to make contributions to capital projects if it is a good business decision. Some of the proposals in the tax overhaul package, if enacted, would cripple involvement from any of these three parties. Deductability of state and local taxes is a very big issue--don't underestimate its effects. Safeharbor leasing and IRBs are important items for encouraging private participation. An increase in the deductability of employer subsidized transit might lessen the need for smaller, older cities to build parking towers in their downtowns as a means of preserving their vitality.

This mornings comments were intended to show that transit is not a simple stand alone issue. It is part of the fabric which is this country. If we are to overcome the deficit crisis we must do so not by shredding the fabric but rather by strengthening it. We must put it on the loom in such a way that it retains its flexibility, no part of it is more important than the other, but each part must contribute. The AATA has been doing its part and will continue to do so--we were recognized for it and we were encouraged to keep doing business. At the AATA, we have not tried to reinvent the wheel, we have people who have pride in the ride and know that their mission is to keep it turning. We are not the cheapest operation, we don't try to be. We are a most efficient operation, we try to be. We learn from the best--we have adopted three basic principles.

Respect the Individual
Give Quality Customer Service
Commit to Excellence

These principles have worked for IBM--they are working for us and if you let them work for you--they'll make you Golden.

Thank you for the privilege of appearing before you this morning and I sincerely hope you will reaffirm the commitment to public transit and domestic programs in an equitable manner.

The commission, the city of Los Angeles, the area's business community and the State have pledged to finance over 50 percent of the construction of Metro Rail's first 4-mile segment. This is double what current law requires. When you add the local funding being used for the rest of our rapid transit construction program, you find that 68 percent of the cost is derived from sources other than section 3.

Over the next 5 years our overall bus and rail operating and capital investment will reach $5.9 billion. Even so, retaining the Federal, State, and local partnership is essential.

The STAA reauthorization legislation will make this possible. The commission believes this legislation should include, first of all, extension and adequate funding of existing Federal transit programs including sections 3, 9, and 18, to maintain existing bus service and for the construction of Metro Rail.

Second, extension of allocation formula incentives rewarding bus operators for high ridership. This means an additional $18 million for Los Angeles County bus operators which we contend serves the taxpayer by rewarding bus service efficiency.

Third, legislative language requiring UMTA to approve or disapprove capital improvement programs within 90 days to expedite grant approvals. Without this provision, some bus operators do not receive funds until after the fiscal year closes.

Fourth, allocation of the full amount of the gasoline tax funds in the Highway Trust Fund's mass transit account. According to the Congressional Budget Office, the cash balance in that account estimated at $3 billion for fiscal year 1986 could reach $5.6 billion by the end of 1991. Thus, the account could support an annual authorization of $1.9 billion over 5 years, significantly more than the $1 billion authorization.

Fifth and last, legislative language providing necessary funding for Metro Rail's MOS-2, the second segment. The Department of Transportation must clearly understand it is the intent of Congress that this indispensable link in the Los Angeles rail system receive continued Federal funding.

While the commission knows Federal spending constraints are necessary, we believe Federal transit support is a prudent investment with future dividends. Accordingly, we urge you to adopt a reauthorization bill which recognizes transit's key role in our society.

PUBLIC TRANSIT IS AN ABSOLUTE NECESSITY

In conclusion, although local revenues are carrying the bulk of the transit development load, a reliable Federal funding commitment is vital in meeting the area's present and future transit needs. Public transit isn't a travel alternative. For many, it is an absolute necessity.

Thank you for allowing me to present the commission's views.

Regarding your questions regarding program funding levels, H.R. 4144 and the administration's budget results in major——

Senator HECHT. Excuse me. Your time is up so please summarize in the next minute. Anything you want to put in the record will be in the record.

Mr. **Dana**. I guess the most important thing is regarding this contracting thing. The commission wholeheartedly supports the concept of contracting and is active in this area. The whole county is in everything. We contract out every single thing we can to cut and become more efficient and have been very successful at it.

To date, the Federal law has not prevented contracting out transit service in Los Angeles, although it presumably could in the future and we would like to be sure it doesn't happen.

Again, we are proposing an unprecedented level of local financial participation, public and private, in our transit program. In other words, 68 percent of our rail transit construction costs is nonsection 3 and we firmly hope this will be recognized by the Congress and the administration in legislation and funding decisions.

[The complete prepared statement follows:]

SYSTEM BURSTING AT THE SEAMS

Senator HECHT. Thank you very much.

You represent one of the largest cities in the world and one of the largest cities of America, probably one of the few cities of the world that does not have mass underground transportation or transportation of that kind.

Do you feel that the plans that you have right now which you have just proposed will adequately address that situation in the next few years?

Mr. DANA. Keeping in mind we are totally limited to the automobile and buses, our present system is bursting and the Metro Rail forming the basis for the downtown segment to tie together all of the light rail lines that we are funding locally will, I believe, answer the transportation problems of Los Angeles County.

Senator HECHT. You realize I come from a neighboring State and I understand the tremendous climate you have in southern California and you're going to have unprecedented growth in the next 20 to 30 years.

Do you feel you are adequately addressing all this?

Mr. DANA. I hope so. You probably come to Los Angeles and if you're there in the busy hour on any day you will find we have a 4-hour congested period on all of our major freeways in the morning and 4 hours in the afternoon. The growth is phenomenal. We have 8 million people in the county today. Just in the last 4 or 5 years it's grown by half a million and we expect in the next 10 years to go to over 9 million in the county. And it's a race to keep up with it but without mass transit we're just plain not going to make it, in my opinion.

Senator HECHT. I fully understand that. Having been a businessman in Las Vegas for 25 years, it would take me 45 minutes to fly into your airport and 2 hours to get downtown. So I understand your dilemma. It's the reason I'm asking these questions.

Are you projecting yourself enough in the future or are you putting a Band-Aid approach on it?

Mr. DANA. No, I think we will be able to build these light rail lines, but without the Metro Rail segment and without the Federal help, it isn't going to tie together and you're not going to be able to travel from the San Fernando Valley, the San Gabriel Valley, the Long Beach area and the South Bay area to get to downtown or get to the airport and get to the major areas. You have to have this basic metro system to tie together the light rail lines. If we have the continued funding from the Federal Government, I think we will meet the needs.

Senator HECHT. During yesterday's hearing it was suggested that 75 percent of the combined gas tax and general fund transit moneys should be distributed by formula. Mr. Volk made a similar suggestion. What are your thoughts on this? Anyone who wants that.

Mr. MILLAR. We generally support the idea that there should be some linkage between the gas tax and the general fund program.

I think the important issue there is: What is the appropriate level of funding for transit? All of us believed in 1982 when Drew Lewis worked so hard to get the gas tax increased that the penny for transit was going to be money that was in addition to the general revenue commitment of the Federal Government. Unfortunately, this has not held true.

So I think if the gas tax is viewed as additional revenues, I would like to see—and I said so in my testimony—that eventually the Transit Program be taken out of general revenues altogether and into a trust fund. So I think it is the right direction to head, but I think we have to make sure that it's tied with adequate levels of funding.

Senator HECHT. Do you all agree with that?

Mr. BOLTON. I would agree essentially with the way that Bill just stated it. I think the key is that as the program develops and as it evolves once the massive infusion of capital funding addresses the rebirth of transit in this country, that once that process or once that phase is over, then it's appropriate to begin to balance the distribution of the funds in order to maintain the system.

I think Bill also touched on something else that's very key, and that is, it makes no sense to spend billions of dollars developing systems, putting hardware in place, if we don't have a mechanism for funding its continued maintenance on a day-to-day basis. It's a lot easier to have the money to maintain the vehicle than it is to go back out and try to buy one every 5 or 10 years.

DISCRETIONARY GRANT SELECTION CRITERIA

Senator HECHT. What are your thoughts on establishing discretionary grant selection criteria?

Mr. MILLAR. I stated in my testimony that we are generally not in favor of congressionally mandated standards. My feeling is the diverse needs of transit throughout the country make it almost impossible to put into law a meaningful set of standards and I think what it will cause is all the transit properties that need the additional federal aid will just try to design their projects just to meet the standards rather than design projects that might be cost effective in the local community and in the local environment.

Mr. VOLK. I think if you want to move in that direction I think the Congress and the transit industry as well as the administration will have to work together on that. Leaving the standards to an administration that is opposed to any new starts or any good support of transit is putting the fox in the hen house. There should be a widespread group of individuals and interest groups involved in any such commission.

Senator HECHT. Mr. Dana.

Mr. DANA. It's difficult for us to respond to this since the place is between the authorizing and appropriating committees of both Houses. Our experience with criteria has been poor in that they don't produce funding in the end and we have the second-rated project in the Nation but UMTA won't give us the necessary funds and actions of the Congress are necessary to keep the appropriations alive. So we're not too good on that.

Mr. BOLTON. I think based on the experience that we've had with, for instance, white book specs, some of the procurement guidelines, those sorts of things in the past where certain things have been mandated, we've seen significant inefficiencies because in many cases those guidelines did not meet the local needs.

I think the key in the consideration here is that there has to be a partnership between the Federal Government and the local governments and I think if the Federal Government is understanding of its role in terms of the national picture and relies on the experience and really the accountability of the local governments to make those decisions, I don't think criteria is necessary in that case.

Senator HECHT. Thank you. It has often been said that smaller transit systems are much more dependent on operating subsidies. Could we adjust the current program so as to focus operating funds more to the smaller communities and allow the larger systems to look to local sources for these funds?

Mr. MILLAR. You could. I wouldn't recommend it.

Senator HECHT. OK. Good answer.

Mr. MILLAR. The large systems use a great deal of Federal aid. That's no secret. And use it primarily for capital purposes. Having made that Federal capital investment, there is clearly a Federal interest in maintaining that investment.

From a theoretical point of view, it is difficult for me to understand how a dollar of subsidy out of the left-hand pocket that pays for capital is any different than a dollar of subsidy out of the right-hand pocket that pays for operating expenses. I think you need to protect the Federal investment. I think that need is as important in the large cities as it is in the small cities.

Senator HECHT. Do you basically agree?

Mr. VOLK. Yes.

Senator HECHT. OK. Many have alluded to the CBO report in which it is suggested that up to $800 million more per year could be appropriated. Yet that same report also reminds us of a very critical fact. Any increase in transit spending from the Highway Trust Fund will result in a higher Federal deficit unless it is offset by reduced spending from the general fund. Can you comment on that?

Mr. BOLTON. I guess again not being an economist but understanding that if the locality is controlling the dollars in terms of how they're spent, especially if there's a match of local dollars, then there tends to be a greater concern about the efficiency of the operation.

One of the key things that we keep hearing about is this tremendous growth between the GPI and the pay raises of drivers, et cetera. That's been going on for years. At least it's been stated for years.

I think the key is that if the local authority understands the amount of money that's available and is willing to work within that budget and works within that budget, then you're going to get a return on the dollar.

It doesn't make any sense, however, to just simply limit it and just simply take it away. I mean, it's a question—in our own experience, we're getting 30 percent more service out of essentially $1.5 million than we did before and we're doing it because it was a local decision.

Mr. DANA. I think what's been said about a partnership between the Federal Government and the local government is absolutely essential and this business—we've got to get on for a requirement for an up or down response on these programs. This dragging it on the way it is right now is absolutely killing us and the cost is going up through inflation. And we've got to have something in the bill like a 90-day from submittal action plan. You just can't live with it the way it is. You can't get anything done.

Senator HECHT. That's government. You can't change that overnight.

Mr. MILLAR. May I comment on that also? I don't pretend to understand the intricacies of the Federal budget, however, I'd like to make two comments.

First, if the additional money is spent it is my understanding that money that is spent on capital improvements out of the trust fund has a much slower payout rate than some other Federal programs. So the immediate budgetary impact is certainly much less.

Second, I think the main thing to be realized—and it is something that Senator Lautenberg said in his statement—investing in public transit is investing in the Nation's infrastructure. The fact that Pittsburgh or Ann Arbor or Los Angeles, or Champaign-Urbana is able to grow and prosper puts money back in the Federal coffers. Every dollar that is spent on transit construction in Pittsburgh generates some $3.25 of business revenue. With current tax laws, that's revenue that comes right back to the Federal Government.

So I think you need to look at this from the standpoint of a long-term investment and also from the standpoint of the total expenditure cycle.

TRANSIT PROGRAM CUT DRASTICALLY

Senator HECHT. Do you have anything to add?

Mr. VOLK. Just briefly. The Transit Program has been cut significantly over the last few years. Section 9, for instance, has been reduced from $2.5 billion down to $2 billion and that sort of a cut has been significant and it has been felt throughout the country. And I would hope that any additional moneys that would come out of the trust fund could stay in the program and be dedicated to those programs as it was intended in the Surface Transportation Act.

Senator HECHT. Thank you. Mr. Volk, you state in your written testimony that you have no quarrel with the objective of greater private sector involvement and that you have contracted with taxis for 8 years to handle special services.

Why wouldn't this work for other levels of service?

Mr. VOLK. Well, there are a number of situations in small communities that it wouldn't work where it does in large communities. For one thing, we're a small urban area, only about 35 to 40 square miles. The ability for us to contract out for park and ride locations such as is done in many large urban areas is not there because we don't have park and ride facilities, and the integration of park and ride facilities with regular transit services is very minimal.

When it gets down to regular line service, it becomes very difficult for two reason. One is that there aren't very many private op-

TESTIMONY OF
CHAIRMAN DEANE DANA
THE LOS ANGELES COUNTY TRANSPORTATION COMMISSION

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE,

GOOD MORNING. MY NAME IS DEANE DANA AND I AM COUNTY SUPERVISOR OF THE 4TH DISTRICT IN LOS ANGELES COUNTY. I AM HERE TODAY AS CHAIRMAN OF THE LOS ANGELES COUNTY TRANSPORTATION COMMISSION (LACTC) TO URGE THE EXPEDITIOUS PASSAGE OF LEGISLATION TO REAUTHORIZE THE SURFACE TRANSPORTATION ASSISTANCE ACT OF 1982. I APPRECIATE THE OPPORTUNITY TO SHARE THE COMMISSION'S VIEWS WITH THE SUBCOMMITTEE AND I WOULD LIKE TO BEGIN MY REMARKS WITH A BRIEF SUMMARY OF THE COMMISSION'S ROLE IN TRANSIT DEVELOPMENT IN LOS ANGELES COUNTY.

THE LOS ANGELES COUNTY TRANSPORTATION COMMISSION

IN 1976, THE CALIFORNIA LEGISLATURE CREATED THE LOS ANGELES COUNTY TRANSPORTATION COMMISSION. THE COMMISSION IS CHARGED WITH COORDINATING AND ESTABLISHING TRANSPORTATION POLICY AND PRIORITIES FOR THE COUNTY THROUGH THE ALLOCATION OF AVAILABLE FEDERAL, STATE AND LOCAL FUNDS. THE COMMISSION, WHOSE MEMBERS REPRESENT THE COUNTY'S MAJOR LOCAL JURISDICTIONS, SERVES TO HELP RESOLVE LONG-STANDING TRANSPORTATION PROBLEMS AND TO PLAN FOR THE FUTURE TRANSPORTATION NEEDS OF THE AREA. THUS, THE COMMISSION IS THE VEHICLE FOR THE ESTABLISHMENT OF A BALANCED AND COMPREHENSIVE APPROACH TO HIGHWAY AND TRANSIT DEVELOPMENT IN LOS ANGELES COUNTY.

OUR LOCAL COMMITMENT TO TRANSIT FUNDING

AS A MEANS OF PROMOTING LOCAL FINANCING OF TRANSIT DEVELOPMENT IN LOS ANGELES COUNTY, THE COMMISSION PROPOSED A BALLOT MEASURE IN 1980 TO DEDICATE ADDITIONAL LOCAL SALES TAX REVENUES FOR THIS PURPOSE. LOS ANGELES VOTERS APPROVED THIS 1/2 PERCENT SALES TAX INCREASE BY A LARGE MARGIN. REVENUES FROM THE BALLOT INITIATIVE, KNOWN AS PROPOSITION A, ARE DEDICATED TO THREE PROGRAMS: REDUCED BUS FARES, LOCAL TRANSIT IMPROVEMENTS, AND THE CONSTRUCTION OF A RAIL RAPID TRANSIT SYSTEM. PROPOSITION A INSTRUCTED THE COMMISSION TO BUILD THE RAIL SYSTEM AS QUICKLY AS POSSIBLE. THE 1/2 PERCENT SALES TAX INCREASE, WHICH GENERATES MORE THAN $300 MILLION ANNUALLY, DESIGNATES 35 PERCENT OF THE FUNDS TO RAIL TRANSIT DEVELOPMENT. AN ADDITIONAL 25 PERCENT OF THE PROPOSITION A SALES TAX IS RETURNED TO THE CITIES AND THE COUNTY FOR LOCAL TRANSIT PROGRAMS AND 40 PERCENT OF THE REVENUES IS ALLOCATED AT THE COMMISSION'S DISCRETION FOR APPROPRIATE TRANSIT NEEDS.

WITH THE PASSAGE OF PROPOSITION A, LOS ANGELES COUNTY HAS CLEARLY DEMONSTRATED A WILLINGNESS TO SHARE THE FINANCIAL RESPONSIBILITY FOR SUSTAINING AND DEVELOPING TRANSIT SERVICES IN LOS ANGELES. NEVERTHELESS, IT IS ALSO CLEAR THAT A STRONG FEDERAL FUNDING COMMITMENT CONTINUES TO BE NECESSARY IN ORDER FOR LOS ANGELES COUNTY TO MEET ITS CURRENT AND FUTURE TRANSIT DEMANDS. THUS, IT IS IMPERATIVE THAT CONGRESS APPROVE A TRANSPORTATION REAUTHORIZATION BILL WHICH RECOGNIZES THE ENORMOUS TRANSIT NEEDS OF LARGE URBAN AREAS SUCH AS LOS ANGELES COUNTY.

TRANSIT NEEDS IN LOS ANGELES COUNTY

THE TRANSIT FINANCING NEEDS OF AN AREA AS VAST AND DIVERSE AS LOS ANGELES COUNTY ARE SUBSTANTIAL. WE EXPERIENCED MORE THAN A 40 PERCENT INCREASE IN BUS RIDERSHIP DURING THE FIRST THREE YEARS OF OUR REDUCED FARE PROGRAM, WITH ONLY A SLIGHT LOSS IN RIDERSHIP (ABOUT 5 PERCENT) AFTER FARES WERE INCREASED 70 PERCENT LAST JULY. IN BUS TRANSIT ALONE, THE COUNTY IS ANTICIPATING EXPENDITURES OF OVER $600 MILLION IN FY 1986. BUS OPERATIONS ACCOUNT FOR OVER 90 PERCENT OF THAT FIGURE, OR $544 MILLION OF THE TOTAL. COMMISSION PROJECTIONS INDICATE THAT OVER THE NEXT FIVE YEARS, TOTAL TRANSIT OPERATING EXPENSES IN THE COUNTY MAY EXCEED $3 MILLION, WITH CAPITAL IMPROVEMENTS AMOUNTING TO AN ADDITIONAL $310 MILLION.

IT IS IMPORTANT TO NOTE THAT THESE FIGURES REPRESENT THE TIP OF THE ICEBERG IN TERMS OF MEETING THE TRANSIT NEEDS OF LOS ANGELES COUNTY. IT IS FOR THIS REASON THAT THE FEDERAL, STATE AND LOCAL FUNDING PARTNERSHIP FOR TRANSIT MUST BE MAINTAINED THROUGH REAUTHORIZING LEGISLATION. IT IS ALSO FOR THIS REASON THAT LOS ANGELES COUNTY VOTERS APPROVED PROPOSITION A AS A MECHANISM FOR PROVIDING A HEALTHY PERCENTAGE OF THE FUNDS NECESSARY TO MEET THE COUNTY'S CURRENT TRANSIT NEEDS AND TO HELP FUND THE RAIL RAPID TRANSIT SYSTEM TO MEET FUTURE TRANSIT DEMAND. THE FOLLOWING IS A BRIEF DESCRIPTION OF, AND STATUS REPORT ON THE LOS ANGELES COUNTY RAIL RAPID TRANSIT SYSTEM.

THE LOS ANGELES COUNTY RAIL RAPID TRANSIT SYSTEM

THE COUNTY'S COMPREHENSIVE RAIL RAPID TRANSIT PLAN REPRESENTS A SIGNIFICANT LOCAL FINANCIAL INVESTMENT IN THE FUTURE OF TRANSIT SERVICES IN SOUTHERN CALIFORNIA.

THE RAIL RAPID TRANSIT PLAN APPROVED FOR DEVELOPMENT BY LOS ANGELES COUNTY VOTERS IS A 150-MILE RAIL SYSTEM OF THIRTEEN HIGH-PRIORITY CORRIDORS. THE FIRST TWO LINES SLATED FOR CONSTRUCTION IN THE PLAN ARE THE METRO RAIL PROJECT, A HEAVY RAIL LINE, AND THE LONG BEACH-LOS ANGELES (LB-LA) RAIL TRANSIT PROJECT, A LIGHT RAIL LINE. THE LB-LA TRANSIT LINE IS ALREADY UNDER CONSTRUCTION AND WILL BE COMPLETELY FINANCED BY LOCALLY GENERATED PROPOSITION A FUNDS. IN ADDITION, WORK HAS PROGRESSED AT A STEADY PACE ON THE CENTURY FREEWAY/TRANSITWAY PROJECT. THIS RAIL TRANSIT LINE, WHICH WILL BE CONSTRUCTED IN THE MEDIAN OF THE NEW FREEWAY, WILL ALSO BE FUNDED THROUGH PROPOSITION A. TOGETHER, THE LONG BEACH-LOS ANGELES AND CENTURY FREEWAY TRANSIT LINES TOTAL 40 MILES OF LIGHT RAIL CONSTRUCTION BEING PAID FOR ENTIRELY WITH LOCAL FUNDS. THE REMAINING CORRIDORS OF THE VOTER-APPROVED SYSTEM ARE IN VARIOUS STAGES OF ANALYSIS BY THE COMMISSION.

THE METRO RAIL PROJECT, THE BACKBONE OF THE COUNTYWIDE RAIL SYSTEM, IS THE ONLY LINE OF THOSE NOW UNDERWAY WHICH SEEKS FEDERAL FUNDS. YET THESE FUNDS, THROUGH THE SECTION 3 DISCRETIONARY PROGRAM, ARE OF THE UTMOST IMPORTANCE TO THE TIMELY

AND COST-EFFECTIVE DEVELOPMENT OF THE ENTIRE SYSTEM. THE COMMISSION, THE CITY OF LOS ANGELES, THE AREA'S BUSINESS COMMUNITY AND THE STATE OF CALIFORNIA HAVE PLEDGED TO FINANCE OVER 50 PERCENT OF THE CONSTRUCTION OF METRO RAIL'S FIRST 4-MILE SEGMENT. THIS PLEDGE IS DOUBLE WHAT IS REQUIRED BY CURRENT LAW. WHEN YOU ADD IN THE LOCAL FUNDS BEING USED FOR THE REST OF OUR RAPID TRANSIT CONSTRUCTION PROGRAM, YOU FIND THAT 68 PERCENT OF THE COST OF OUR PROGRAM IS DERIVED FROM SOURCES OTHER THAN SECTION 3.

THE NEED FOR REAUTHORIZING FEDERAL TRANSIT PROGRAMS

IN LOS ANGELES COUNTY, THE OVERALL OPERATING AND CAPITAL INVESTMENT FOR OUR EXISTING BUS SERVICE AND THE CONSTRUCTION OF THE RAIL RAPID TRANSIT SYSTEM MANDATED BY PROPOSITION A IS EXPECTED TO REACH $5.9 BILLION OVER THE NEXT FIVE YEARS. YET, EVEN WITH THE SIGNIFICANT LOCAL CONTRIBUTION TO TRANSIT PROVIDED BY PROPOSITION A, THERE IS A GREAT NEED TO MAINTAIN THE EXISTING FEDERAL, STATE AND LOCAL PARTNERSHIP IN ORDER TO MEET OUR BURGEONING TRANSIT NEEDS. STAA REAUTHORIZING LEGISLATION IS A VITAL ELEMENT IN THE MAINTENANCE OF THIS PARTNERSHIP. THE COMMISSION BELIEVES THAT REAUTHORIZING LEGISLATION SHOULD INCLUDE THE FOLLOWING:

(1) THE EXTENSION AND ADEQUATE FUNDING OF THE EXISTING FEDERAL TRANSIT PROGRAMS, INCLUDING: SECTION 3, SECTION 9 AND SECTION 18. THESE

PROGRAMS ARE ESSENTIAL FOR THE MAINTENANCE OF EXISTING BUS SERVICE IN OUR AREA AND FOR THE CONSTRUCTION OF METRO RAIL.

(2) THE EXTENSION OF THE INCENTIVE FEATURE IN THE ALLOCATION FORMULA WHICH REWARDS BUS OPERATORS FOR HIGH RIDERSHIP. THIS PROVISION MEANS AN ADDITIONAL $18 MILLION FOR LOS ANGELES COUNTY BUS OPERATORS AND, WE WOULD ARGUE, IS IN THE INTEREST OF THE NATIONAL TAXPAYERS SINCE IT REWARDS EFFICIENCY IN BUS SERVICE.

(3) LEGISLATIVE LANGUAGE REQUIRING UMTA TO APPROVE OR DISAPPROVE CAPITAL IMPROVEMENT PROGRAMS (SRTP/TIP) WITHIN A 90-DAY PERIOD IN ORDER TO EXPEDITE GRANT APPROVALS. WITHOUT THIS PROVISION, FEDERAL ALLOCATIONS FOR BUS OPERATORS WILL BE HELD UP TO SUCH AN EXTENT THAT SOME OF OUR OPERATORS WILL NOT RECEIVE THE FUNDS UNTIL AFTER THE CLOSE OF THE FISCAL YEAR.

(4) THE ALLOCATION OF THE FULL AMOUNT OF THE GASOLINE TAX FUNDS IN THE MASS TRANSIT ACCOUNT OF THE HIGHWAY TRUST FUND. WHAT HAS BEEN SET ASIDE BY CONGRESS FOR TRANSIT SHOULD GO TO TRANSIT.

(5) LEGISLATIVE LANGUAGE PROVIDING NECESSARY FUNDING FOR METRO RAIL'S MOS-2, THE SECOND 4-MILE SEGMENT. THE DEPARTMENT OF TRANSPORTATION MUST CLEARLY UNDERSTAND IT IS IN THE INTENT CONGRESS THAT THIS INDISPENSABLE LINK IN THE LOS ANGELES RAIL SYSTEM BE GUARANTEED FEDERAL FUNDING FOR ITS CONSTRUCTION.

ALTHOUGH THE COMMISSION IS AWARE OF THE CONSTRAINTS WHICH MUST BE IMPOSED ON FEDERAL SPENDING IN ORDER TO REDUCE THE DEFICIT, IT IS OUR BELIEF THAT FEDERAL SUPPORT FOR TRANSIT, WORKING IN CONCERT WITH STATE AND LOCAL GOVERNMENT CONTRIBUTIONS, REPRESENTS A PRUDENT INVESTMENT WHICH WILL PRODUCE DIVIDENDS IN THE FUTURE. NOWHERE IS THIS MORE EVIDENT THAN IN LOS ANGELES COUNTY WHERE MASS TRANSIT HAS BECOME AN ESSENTIAL PART OF EVERYDAY LIFE FOR MANY RESIDENTS. ACCORDINGLY, WE URGE YOU TO ADOPT A STAA REAUTHORIZATION BILL WHICH RECOGNIZES THE IMPORTANT ROLE TRANSIT PLAYS IN OUR SOCIETY AND WHICH INCLUDES THE FIVE POINTS I HAVE MENTIONED.

CONCLUSION

IN CONCLUSION, ALTHOUGH LOCAL REVENUES ARE CARRYING THE BULK OF THE LOAD IN OUR EFFORTS TO PROVIDE EFFECTIVE TRANSIT SERVICES IN LOS ANGELES COUNTY, A CERTAIN FEDERAL FUNDING COMMITMENT TO

TRANSIT IS VITAL TO OUR MEETING THE AREA'S PRESENT AND FUTURE TRANSIT NEEDS. PUBLIC TRANSIT IS MORE THAN "AN ALTERNATIVE" MODE OF TRAVEL: FOR MANY IT IS A NECESSITY OF LIFE. THE FEDERAL, STATE AND LOCAL PARTNERSHIP FORGED THROUGH THE EXISTING FEDERAL TRANSIT PROGRAMS MUST BE SUSTAINED AND ENHANCED IN THE REAUTHORIZATION OF STAA. THE COMMISSION URGES THE SUBCOMMITTEE TO MOVE THIS IMPORTANT LEGISLATION ALONG.

AGAIN, THANK YOU FOR ALLOWING ME TO PRESENT THE VIEW OF THE COMMISSION BEFORE THIS SUBCOMMITTEE.

erators in small communities. There are two other private operators in our community, one a school bus operator and one an intercity bus carrier.

The second thing is that there has to be integration, particularly on line service. There has to be communications. We have, for instance, passengers getting on our bus requesting that another bus hold for them at a certain point so they can make a transfer. If there is not complete integration in our service that becomes very difficult if we have two or three different operators or two or three different private operators working in our system.

Senator HECHT. Thank you. Mr. Bolton, you state that federally subsidized public transit systems should be allowed to compete for charter service. Another part of the transit act called "Buy America" requires the use of domestic steel because of the unfair competition from government-subsidized foreign producers.

A subsidy is a subsidy. You do not bear the same risk as a private transit provider. How can you justify seeking to go after commercial charter services?

Mr. BOLTON. I think a part of it comes down to what you view as being a charter service. I think what we're talking about is in opposition to the current proposal to forbid or the announced public proposed rulemaking forbidding charters.

I guess the best way to explain it is whoever wrote that guidance or that proposed rulemaking doesn't understand the charter business that many transit systems run. All of it is incidental. It has to be by law. But in terms of what it does, it serves more of a public need, it's more of a public service than it is a way of making a great deal of money.

I guess my objection to the current notice of proposed rulemaking is that, if you look at it, it's sort of contradictory with the whole gist of the privatization argument. On one side, you hear the privatization argument being that the private operator should be able to make a profit on a publicly subsidized service. Conversely, why shouldn't a public operator be able to reduce the need for local taxes or even Federal taxes by operating a service that's going to reduce his operating costs?

It's the one place where transit operators truly compete for the dollar that's there. Again, it's on a limited basis. I'm not talking about chartering all over the country. I'm not talking about running things. I'm talking about the 2- and 3-hour charters for chambers of commerce, for church groups, and those sorts of things, that in many cases the private operators don't even want to touch because it's not worth it to them.

Another thing. We've worked with our local charter operators in order to get approval to operate charters. We match them. Our charter rate is identical to theirs if not more in many cases. So I think what we're saying is it's an unnecessary intrustion into a local process. The private operators, they take the service which is most applicable to them. The public operators can sometimes provide that balanced service within a community. That's essentially what I'm saying.

ACCOUNTABILITY OF FEDERAL FUNDS

Senator HECHT. Thank you. To the panel, how do you respond to the assertion that transit decisions are based more on the availability of Federal funds rather than true mobility needs?

Mr. MILLAR. I can testify for Pittsburgh. That is certainly not true in Pittsburgh. I think what all of us seek to do and what the federally mandated process has sought to do for decades is to identify how we can more efficiently operate our transit system, and sometimes making the major capital investments is the way to operate it on a more effective basis.

So I think as long as there is a significant local share—and under current law there is a significant local share—there is going to be proper oversight of the expenditures by the local community. I have yet to meet an elected official in a local area who wants to misspend a Federal, State, or local dollar. I think the accountability is there.

Senator HECHT. Mr. Dana.

Mr. DANA. We do everything we can, but when the stable funding from the Federal gets cut off, there's just so much we can do locally, whether it would be buses or anything else. We can raise the rates just so much, but we're going pretty high now.

Senator HECHT. Mr. Bolton, Dr. Teal, a later witness, has stated that while the Federal Transit Program has contributed much, it has been ineffective in promoting cost control by transit operators. Could you comment on that?

Mr. BOLTON. I guess my comment would be if Dr. Teal would like to come and visit us we'll show him how you control costs. I don't know where his facts come from. I have heard various presentations in terms of 30 to 60 percent reductions that are available if certain services were operated by a private operator.

I've also heard other people say that it's an economy of scale, you get to 5 percent, if you match up a 25-bus private operator versus a 25-bus public operator.

I think the key thing in this whole thing is that you can cut the numbers any way you want to cut them. I know, for instance, that when I sit down to negotiate across the table from my bargaining unit, they know and I know that it's not a giveaway program. When we sat down to build a facility we had $7.2 million in money to build that facility. It came in on time and on budget.

Now I get a little tired of an academic who doesn't deal in the real world problems that I deal in every day telling me that I'm being inefficient. When it comes down to it, we get the biggest bang for the buck and we do it on a local level. If you start aggregating numbers—when I was taking my statistics course in college I learned how to lie with figures, too, but it all comes down to how you want to cut things.

So I don't know where he gets his numbers. I know what we do and I know we do it efficiently and effectively and I know a lot of other transit systems do, too.

Senator HECHT. I'm not one to give advice, but if you worry about being inefficient on cost control, don't run for Congress because every newspaper in the country cuts us up every day for that.

Mr. Dana, Dr. Teal has also made an observation on the contracting out practices of Los Angeles County and found that though there is extensive contracting in unincorporated areas of the county the larger regional transit authorities in the larger areas contract for little or no service.

What accounts for this difference?

Mr. DANA. With the passage of proposition A in 1980, Los Angeles County has been able to greatly expand upon the number of transit services contracted out to private operators. Currently, 89 percent of all proposition-A-funded transit services in the county are contracted out. The city of Los Angeles contracts out 100 percent of its postproposition A transit services.

Dr. Teal's remarks may have reflected the public transit services established in the county's larger cities prior to the passage of proposition A. These fixed-route services, such as the county's largest operator SCRTD, have not heretofore contracted out. Nevertheless, the commission is working closely with these bus operators to fulfill UMTA's privatization guidelines.

COST EFFECTIVENESS

Senator HECHT. Do you feel you're getting cost effectiveness?

Mr. DANA. I think we really are in every way, but every city has different elected officials and is somewhat controlled as to what they can contract and what they can't.

Senator HECHT. That's up to the city councils then. How many different councils do you have to work with?

Mr. DANA. Eighty-four cities in Los Angeles County, the largest of which is Los Angeles City that's roughly a little over one-third of the population of the county.

Senator HECHT. I knew it was pretty high. Eighty-four different city councils every time you make a drastic move, in other words, on a budget or anything, you must deal with 84 city councils?

Mr. DANA. It doesn't really work that way. The county provides a lot of the services and the Los Angeles County Transportation Commission, of course, goes over the whole area and we are the ultimate authority, but we work very closely with them.

Senator HECHT. You must have the patience of Job.

It has been suggested that involving private sector representation in service decisionmaking will assure that more cost-effective comparisons can be made in evaluating the cost of transit service.

Who would like to comment on that?

Mr. VOLK. Well, I think we have representation, as I'm sure the other systems do, of private citizens and individual entrepreneurs on our boards.

One of the fallacies regarding the representation of private operators on transit boards it seems to me, as the UMTA privatization rules require, is that it effectively takes them out of the business. As soon as you put a private transit operator on a public policymaking board, it is our policy at any rate for our board not to contract with that person—none of the board members can have any action from our transit board or for transit.

In our case, we only have two private transit operators in our community and if we put one of those on our board, we've effectively eliminated one of the private operators from getting any subcontracting work.

Mr. **Millar**. I would agree with that and I would emphasize that the legal entity, at least in Pennsylvania, that is responsible for the transit service in the area is the transit board itself. So there would be a strong inherent conflict of interest if private operators are appointed to a transit board if they intend to provide any of the service in the area.

That isn't to say there isn't a role for good advice from private carriers through some type of carriers' advisory committee. We certainly meet with our private carriers. It isn't to say that through our citizens advisory committee there isn't an outlet. But I think not on the board itself.

Senator **Hecht**. Does anyone else want to comment on that?

[No response.]

Senator **Hecht**. We will have other questions from Senator Heinz and other members to you for the record. The record will be open for 2 weeks so we hope you will comment on this. Thank you very much.

Mr. **Millar**. Thank you, Mr. Chairman.

Senator **Hecht**. Would the next panel, Gary L. Brosch and Roger F. Teal, please step forward?

Mr. Brosch, do you want to start?

STATEMENT OF GARY L. BROSCH, VICE PRESIDENT, RICE CENTER, HOUSTON, TX

Mr. **Brosch**. Thank you, Mr. Chairman, for the opportunity to appear before you today. My remarks will summarize my written statement and, as requested, will be directed at the fundamental issues common to all proposals, including overall transit funding levels, block grant proposals, competitive bidding proposals, discretionary grant selection criteria, and funding potential for transit capital from States, localities, and the private sector.

TRUE NEEDS FOR MOBILITY

Importantly, the estimates for transit funding will vary depending upon who is doing the estimating and who is expected to pay. If local governments or transit properties can purchase capital equipment and facilities by only paying 25 or 50 percent of the total cost, they will obviously demand a much greater level of capital expenditure than if they are paying the entire cost. Far too often, decisions on major transit investment are made on the basis of the availability of Federal funds rather than true mobility needs.

While it's unclear whether the true need for Federal funding of transit is $1 or $4 billion, it is clear that funding transit through the use of the motor fuels tax instead of general revenue funds is an important step toward helping reduce the Federal deficit.

The Federal Government should be providing funding for mobility, giving flexibility to local areas to select the most effective mix of transit and highways.

The many institutions that were born and nourished by categorical funding programs for transit will be powerful barriers to any new more efficient system, but the concept of an urban mobility block grant has such tremendous potential for improving the cost effectiveness of our transportation systems and thereby providing greatly improved transportation services to the public, that I urge the subcommittee to tackle the difficult task of forming an acceptable implementation program.

Mr. Chairman, the current categorical transit funding program, including both sections 3 and 9, is inefficient in its allocation of funds. In my home State of Texas—and indeed it's true in many other States—there are several urbanized areas of over 50,000 population that receive section 9 formula funds and yet have no transit system. These areas are now faced with the difficult choice of explaining to their constituents why they lost their allocated Federal dollars or creating a new, possibly not needed, transit system through the use of Federal dollars that only cost 25 cents apiece. It would be a much more efficient allocation and require fewer Federal dollars to allow these local governments to utilize transportation funds for whichever transportation needs may be the greatest.

Authorization of specific selection criteria for discretionary grants would be an improvement over the current program, but would still be inefficient when compared to a block grant program.

COMPETITION THROUGH SERVICE CONTRACTING

Turning to the area of competition, studies conducted at Rice Center and elsewhere by Dr. Teal demonstrate that competition in the form of service contracting is saving taxpayers across the United States millions of dollars. These savings occur not only because private contracts provide substantial cost savings but because of increased productivity generated internally when public employees are placed in head-to-head competition with outside private vendors.

In spite of the positive potential of competition through contracting, only 4 to 5 percent of the total public transit service is currently contracted.

We cannot rely solely on the positive experiences to date to convince transit agencies to rely more heavily on efficient private transit operators. The institutional barriers to increased public-private cooperation are substantial.

Given the significant savings that have been demonstrated, the potential for more savings and the limited amount of contracting that's currently being conducted, it's imperative that more affirmative steps be taken to realize that untapped potential.

Turning finally to funding opportunities, if aggregate Federal funding for transportation is reduced, there indeed will be added pressure on States, local governments, and the private sector to pick up an increasing share of the burden. As I discussed earlier in defining needs, this is not necessarily a one-to-one relationship. First, the overall need for transportation funds may be redefined when fewer Federal dollars are available for 25 cents each. Second, reduction in Federal redtape and the added flexibility given to States, local governments, and transit agencies through a block grant program will reduce the overall required funding by making more efficient use of each dollar. Finally, the introduction of competition into mass transportation can offer improved quality service at significant savings and thus further reduction in the need for public subsidy.

But, to the degree that a portion of the burden is shifted from the Federal Government, it is clear that States, localities and the private sector can and will assume a greater burden in an amount consistent with local priorities.

Many local governments, with the assistance of State enabling legislation—indeed in your home State—are approving tax increases to support transit. The range of funding mechanisms available is extensive, including payroll taxes, employee taxes, sales taxes, ad valorem taxes, lottery receipts, and even a tax on beer in Alabama.

The private sector has demonstrated a willingness and ability to support or provide direct assistance to transportation projects that have shown themselves to be effective.

Local areas are now capitalizing on a variety of methods of public-private partnerships to capture the value created by transit systems. Such methods, including impact fees, benefit assessment districts, and joint development projects, are now providing millions of dollars of funding through these public-private partnerships. And importantly, private funding is occurring in both large and small systems across the United States.

In summary, Mr. Chairman, transportation funding, regardless of level, should come exclusively from trust fund accounts to eliminate its negative influence on the Federal deficit. Second, the effectiveness of Federal funds for transportation could be improved tremendously through the use of a block grant program to increase local flexibility and accountability. Third, increase use of competition in the public transit industry is essential to achieving savings. Finally, States, localities, and the private sector can, should and will play an increasingly important role in the funding of local transit.

Thank you, Mr. Chairman, for the opportunity to appear before you today. I'd be happy to answer your questions and assist the committee in the future.

[The complete prepared statement follows:]

STATEMENT OF GARY L. BROSCH

VICE PRESIDENT, RICE CENTER; DIRECTOR,

JOINT CENTER FOR URBAN MOBILITY RESEARCH

BEFORE THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

WEDNESDAY, APRIL 16, 1986

Mr. Chairman and Distinguished Members of the Subcommittee, I appreciate the invitation to appear before you today to discuss important issues related to the reauthorization of the Urban Mass Transportation Act of 1964. As requested, my remarks will be brief and will not be directed to specific proposed legislation, but will instead address the fundamental issues common to all current legislative proposals. This will include a discussion of overall transit funding levels, block grant proposals, competitive bidding proposals, discretionary grant selection criteria, and funding potential for transit capital from states, localities and the private sector.

First, let me discuss the proposed mass transit budgets for 1987 and beyond. The Surface Transportation Assistance Act of 1982 provided a significant forward step in funding for mass transit. For the first time, a major portion of mass transit funding comes from a user fee, the motor fuels tax, instead of general funds. Now, with the passage of the Gramm-Rudman-Hollings Amendment, there is more reason than ever to fund mass transit from the user fee and eliminate the negative influence of general revenue funding on the deficit.

Estimates of the total need for transit funding will vary depending upon who is doing the estimating and who is expected to pay. If local governments or transit properties can purchase capital equipment and facilities by only paying 25% or 50% of their total cost, they will obviously demand a much greater level of capital expenditure than if they are paying the entire cost. Far too often, decisions on major transit investment are made on the basis of the availability of Federal funds rather than true mobility needs. Had Federal dollars not been available for such systems as the People Mover in Detroit and the Metro Rail System in Miami the "demand" for transit may have been significantly different. While it is unclear whether the true need for Federal funding of transit is $1 billion or $4 billion, it is clear that funding transit through the use of the motor fuels tax instead of general revenue funds is an important step towards helping reduce the Federal deficit.

In addition, the determination of the overall funding need for transit cannot be made independently from determination of funding for highway needs. The Federal government should provide funding for mobility, giving flexibility to local areas to select the most effective mix of transit and highways.

The concept of an Urban Mobility Block Grant has such tremendous potential for improving the cost effectiveness of our transportation systems thereby providing greatly improved transportation services to the public, that I urge this Subcommittee to tackle the extraordinarily difficult task of forming an acceptable implementation program. The many institutions that were born and nourished by categorical funding for transit will be powerful barriers to any new, more efficient system.

The current categorical transit funding program, including both Section 3 and Section 9, is inefficient in its allocation of funds. In my home state of Texas, there are several urbanized areas of over 50,000 population which receive Section 9 formula funds and yet have no transit system. These areas are now faced with the difficult choice of explaining to their constituents why they lost Federal dollars allocated to their area or creating a new, possibly not needed, transit system through the use of Federal dollars that cost them only 25 cents each. It would be a much more efficient allocation and require fewer Federal dollars to allow these local governments to utilize transportation funds for whichever transportation needs may be the greatest, be it highway or transit.

In large urbanized areas, the categorical approach to funding results in transit and highway decisions being made independent of and sometimes in competition with each other. The current system of Federal categorical grants programs makes resources expended seem less expensive and reduces the incentive for local officials to conduct careful analysis of cross-modal alternatives. The choice is between spending funds or losing them to another jurisdiction. The incentive is to get whatever benefits are available and not necessarily develop and support the most cost-effective projects.

Authorization of specific selection criteria for discretionary grants would be an improvement of the current program, but still inefficient when compared to a Block Grant Program.

Since local areas cannot generally or with much certainty trade between highway funds and transit funds and since they can never be certain of approval for any particular project, there is a tendency to seek funding for projects of different modes that address the same transportation problems.

Under a Block Grant Program, using funds for one project will mean that less can be spent on another. The Block Grant approach for capital projects, by placing decision-making responsibilities at the local level (within the political reach of those affected), would provide much greater political accountability than the existing system of categorical grants.

Under a Block Grant Program, local decision makers are confronted with the fact that resources are limited and costly, encouraging them to choose the best investment possible. The issue is not whether a different mechanism for Federal fund allocation would result in a different outcome for a specific case, but that the proposed mechanism would lead to better mobility decisions.

Research conducted at Rice Center by the research team of Craig Roberts and David Hitchcock with the assistance of Lisa Chernin, Janet Henderson and Cindy Moss has examined various implementation possibilities throughout the country. They found that urbanized areas currently utilize a variety of programming procedures and it is anticipated that a new Block Grant program also would be implemented by a similar locally determined variety of procedures.

The difficulties of implementing a Block Grant Program are immense. But, the rewards of a much more efficient system are so great, that in these times of fiscal responsibility, I urge the Subcommittee to work towards implementation of a Block Grant approach.

Let me now turn to the area of the reintroduction of competition into the mass transportation arena. Studies conducted at Rice Center by Jon Martz with assistance from Don Kronenberg and Earl Washington demonstrate that competition in the form of service contracting is saving taxpayers across the United States millions of dollars. These savings occur because private contracts produce substantial cost savings, but in addition, much of the savings can be attributed to the increased productivity generated internally, when public employees are placed in head-to-head competition with outside private vendors.

In areas as diverse as Norfolk, Virginia and Portland, Oregon, competition from outside vendors has resulted in significant internal productivity and cost improvements. The insertion of transit industry competition between public and private firms, both unionized and non-unionized, into our current monopolistic system of public transit provision should make all parties more innovative and responsive to the reductions in subsidy at all levels of government, and ultimately, to the needs of the consumer.

At the International Seminar on Public Economics/Conference on Public Production, in Bonn, West Germany, in August 1981, Borcherding, Pommerehne and Schneider observed that public firms: adopt cost-saving devices and innnovation more slowly than private firms, (if at all); give managers longer periods of tenure; realise lower and more variable rates of return; price less closely to imputable costs and with less regard to peak-capacity problems; and, systematically overcapitalise.

In spite of the positive potential of competition through service contracting, only a small percentage of the total public bus service is currently contracted, and that fraction is usually limited to a small, periphery of transit service; i.e., downtown circulators and elderly/disabled services. In major areas such as Dallas and Houston, contracting has been shown to provide significant cost savings, while maintaining excellent quality of service.

Given the significant savings that have been demonstrated, the potential for more savings, and the limited amount of contracting that is currently being conducted, it is imperative that more affirmative steps be taken to realize that untapped potential. The opportunity before us is illustrated by the fact that competitively developed services can and do save taxpayers significant sums of money, yet public transit agencies currently contract out only 4% of the nation's total operating expenditures.

We cannot rely solely on the positive experiences to date to convince transit agencies to rely more heavily on more efficient private transit operators. The institutional barriers to increased public/private cooperation are substantial. There is no question that 13C should be removed as an impediment to competition. This provision has insulated public unions from competition with non-unionized private firms and, importantly, from competition with unionized private firms.

In summary, I urge the Subcommittee to take affirmative action towards reducing impediments to and providing requirements for competition in mass transportation.

If aggregate Federal funding for transportation is reduced, there indeed will be added pressure on states, local governments and the private sector to pick up an increasing share of the burden. As previously discussed, this is not necessarily a one-to-one relationship. First, the reduction in Federal red tape and the added flexibility given to states and local governments through a Block Grant program will reduce the overall required funding by making more efficient use of each dollar. Second, the introduction of competition into mass transportation can offer improved quality service at significant savings and thus reduction in the need for public subsidy. Finally, the overall need for transportation funds may be redefined when fewer Federal dollars are available for 25 cents each.

To the degree that a portion of the burden is shifted from the Federal Government, it is clear that states, localities and the private sector can and will assume a greater burden in an amount consistent with local priorities.

Many local governments, with the assistance of state enabling legislation, are approving tax increases to support transit. The range of locally available funding sources for transit is through increased use of competition in the public transit industry. Finally, states, localities and the private sector can and should play an increasingly important role in the funding of local transit.

Thank you Mr. Chairman and Members of the Subcommittee for inviting me to appear before you today. I would be happy to answer any questions.

Senator HECHT. Thanks for summarizing. You're right on 5 minutes.

Mr. Teal.

STATEMENT OF ROGER F. TEAL, CONSULTANT, IRVINE, CA

Mr. TEAL. Thank you, Mr. Chairman.

I'm professor of civil engineering at the University of California at Irvine and I'd like to share with the committee this morning some of the results from a program of research that I've been conducting at Irvine over the past 8 years, the findings of which are directly relevant to the issues facing this committee as it considers the reauthorization of the Urban Mass Transportation Act, particularly as it relates to the competitive procurement of service proposal by UMTA.

This reauthorization provides Congress with an uncommon opportunity to substantially improve the effectiveness of the Federal Mass Transportation Program. While that program has saved mass transit from demise in many cities, helped foster capable regional-wide transit authorities, and made possible a significant upgrading in the capital stock of the transit industry, it has been singularly ineffective in promoting cost control by transit operators.

TRANSIT COSTS ROSE 140 PERCENT HIGHER THAN THE RATE OF INFLATION

During the past 20 years, transit industry costs per vehicle mile have risen at a rate 140 percent greater than the rate of inflation.

Moreover, despite the near elimination of inflation from the national economy since 1981, transit industry expenditures per vehicle mile have increased by over 50 percent during this timeframe. If this cost escalation continues, and there is little reason to believe it will not unless structural changes are made in the Federal Transit Program, the Nation's $60 billion investment in transit during the past 20 years will be placed in jeopardy.

Moreover, service cutbacks, fare increases, and additional tax subsidies from taxpayers will be inevitable.

But this need not occur, for Congress now has policy instruments available which, I am convinced, will, if they are adopted, quickly bring transit costs under control, thereby benefiting transit riders, the taxpayers, and the transit industry itself.

COMPETITIVE PROCUREMENT OF TRANSIT SERVICES

The primary policy instrument which can achieve these results is competitive procurement of transit services.

Since 1978, the research that I have conducted at University of California, Irvine on private sector contracting for public transportation services has led me to three convictions.

These convictions are as follows. First, private sector contracting for transit service is by no means a radical policy departure, but rather is a widely used and effective practice today. However, the agencies which would economically benefit the most from contracting are precisely those which do it the least.

The second conclusion is that contracting for transit service will save significant amounts of money.

The third conclusion is that these potential economic benefits from contracting can only be realized if the structure of the Federal Transit Program is changed in order to give transit agencies a strong incentive to contract for significant portions of their service.

Let me quickly review the evidence which has led to these conclusions.

First, we have recently undertaken a national survey of public agencies that sponsor transit throughout the United States. We contacted approximately 1,000 public agencies in the course of this survey, essentially every relevant public agency in the United States.

This survey found that 35 percent of those agencies were already contracting for some or all of their transit service and that contracting was very popular for small transit systems and among municipal governments.

Nearly 300 public agencies across the country are already contracting for at least a portion of their transit service.

However, the survey revealed something equally significant, which is that contracted services represent only about 5 percent of all operating expenditures of these agencies.

Why this disparity between expenditures and utilization? Quite simply, because medium and large transit agencies typically contract for little or no service. These agencies, of course, are the ones which spend most of the money. Transit agencies which operate 250 or more vehicles are responsible for 80 percent of nationwide bus transit expenditures but agencies of this size typically spend a small amount on contracted service, an average of less than 5 percent of their total expenditures.

Let me turn now to the second conclusion; namely, that contracting will save significant sums of money.

We have three sources that we have used to come to this conclusion.

First, in the nationwide survey we were able to obtain information on cost levels from public and private operators. This data revealed that for comparably sized systems of 50 or more vehicles, private operators have a clear cost advantage, with private cost levels 12 to 38 percent lower per vehicle mile than public agency operators of a similar size.

Moreover, a typical contracting scenario would have large public agencies contract for only portions of their service. So one does not even need to compare agencies of comparable size. If we take the cost per vehicle mile of all private contractors who operate 25 or more vehicles in a contract operation as representative of likely levels of contract cost and compare them to the cost levels of all public agencies that have 250 or more vehicles, we find a 42-percent cost advantage for private operators.

A second cost comparison comes from a companion study from the University of Pennsylvania. That study asked agencies which competitively contract for fixed-route service what their cost savings were by doing so, and they found savings ranging up to 50 percent, with the average reported saving of 29 percent.

Perhaps the strongest piece of data in the entire United States on the cost savings issue comes from Yolo County, CA, where precisely the same service was operated first by the public sector and then by the private sector in successive years. Switching to a private contractor yielded a cost saving of 33 percent, not even accounting for the undoubtable increase in cost that the public agency would have charged the county if they had the service in the successive year.

Finally, we have looked at the issue of cost savings by doing a detailed analysis of the costs of four agencies around the country. Using cost models which reflected these agencies actual service costs, we found cost savings of 12 to 39 percent based on substituting private operators into their operation for various services.

The third conclusion which goes directly to the heart of UMTA's proposal——

Senator HECHT. Your time is up. Please summarize in the next minute.

Mr. TEAL. OK. I can summarize very quickly.

The third conclusion, which goes to the heart of UMTA's competitive procurement proposal, is that transit agencies will not contract for significant amounts of the service without some strong carrots or sticks. The evidence is quite simply that they already have cost pressures today and do not contract for significant portions of service. There is no reason to believe that they will do so in the future without some effective policy guidance from the Federal Government.

Thank you, Mr. Chairman.

[The complete prepared statement follows:]

extensive including such direct taxes as payroll taxes, employee taxes, sales taxes, ad valorem taxes, lottery taxes and even a tax on beer.

The private sector has demonstrated a willingness and ability to support or provide direct assistance to transportation projects that have shown themselves to be effective. A study conducted by Philippos Loukissas at Rice Center found that the private sector can play an important role in the transportation planning process. Public/private partnerships have produced creative and innovative solutions to face crisis conditions of traffic congestion or to overcome financial limitations.

There is an increasing number of Transportation Management Associations (TMAs) (non-profit groups comprised of groups of employers, property owners, developers and civic heads) who pool resources to address community transportation needs. TMAs generate revenues by voluntary assessments to support transportation management activities such as managing ridesharing programs, running shuttle bus service, coordinating staggered work hours programs and initiating programs of traffic flow improvements.

Local areas are now capitalizing on a variety of methods of public/private partnerships to capture the value created by transit systems. Such methods include impact fees, benefit assessment districts and joint development projects. Millions of dollars of funding are now being provided by public/private partnerships in such cases as: development fees in the Los Angeles Airport Coastal Corridor; the 16th Street bus mall in Denver; the People Mover in Miami; the McKinney Avenue Trolley in Dallas; and joint development in Washington, D.C.

Private funding is occurring in both large and small systems across the United States. People Mover Systems in Las Colinas and on Harbor Island in Tampa, Florida are being built and operated by 100-percent private developer funding. Major private systems are proposed in Orlando and Las Vegas. Here in Washington, a Rice Center study team directed by John Breeding found significant potential for private participation in a system to connect Dulles Airport with the WMATA Rail System.

Even in smaller bus systems, major private investment is occurring through the donation of expensive land for bus transfer centers, park and ride lots and even private funding for bus systems serving rural areas.

In summary, Mr. Chairman, transportation funding, regardless of level, should come exclusively from trust fund accounts to eliminate its negative influence on the Federal deficit. Second, the effectiveness of Federal funds for transportation could be improved tremendously through the use of a Block Grant Program to increase local flexibility and accountability, and

Written Testimony of
Dr. Roger F. Teal
before the Subcommittee on Housing and Urban Affairs
of the Senate Committee on Banking, Housing and Urban Affairs
April 16, 1986

The reauthorization of the Urban Mass Transportation Act of 1964 provides Congress with an opportunity to substantially improve the effectiveness of the federal mass transportation program. While the federal transit program has saved mass transit from demise in many cities, helped foster capable regionwide transit authorities, and made possible a significant upgrading in the capital stock of the transit industry, it has been singularly ineffective in promoting cost control by transit operators. Unfortunately, many of the societal benefits created by the federal transit program are now being placed in jeopardy by the inability of that program to provide incentives for transit operators to constrain their costs. Without such cost constraint, service cutbacks, fare increases, and additional subsidies from taxpayers will be necessitated. In the absence of any meaningful indication that the transit industry will on its own make the fundamental changes necessary to reverse the 20-year trend of ever-escalating costs, it is essential that Congress use this occasion of the reauthorization of the Urban Mass Transit Act to establish a legislative framework which will motivate a significant improvement in the cost effectiveness of public transportation in our nation's cities.

Congress faces many specific issues as it considers the reauthorization of the Urban Mass Transit Act. There is, however, one overriding issue: How to stem the seemingly endless fiscal problems of the transit industry, thereby protecting the $60 billion investment the nation has made in the industry over the past 20 years, and at the same time safeguarding the taxpayers from the need to further increase their subsidy to this industry. It is imperative that the reauthorization legislation be explicitly designed to address this issue. Based on research I have conducted over the past 10 years, I am convinced that policies are available to Congress which can resolve this issue in a manner which benefits taxpayers, transit riders, and the transit industry as well. I am further convinced that most of these policies are embodied in the Administration's proposals for reauthorizing the Urban Mass Transit Act.

Since 1978 I have been conducting research at the University of California, Irvine on the topic of private sector involvement in the delivery of public transportation services. This lengthy program of research, most of which has been conducted for UMTA, has convinced me of three things. First, that the fiscal problems of the public transportation industry cannot be solved without fundamental changes in the organization of its service delivery system. The most important of those changes is the elimination of transit's monopoly service provision framework and the adoption of a system of competitive procurement of services. Second, that these fundamental changes in the organization of the service delivery system are most likely to be achieved by making equally fundamental changes in the fiscal incentive system under which transit agencies operate. In particular, local decision makers need more flexibility in the use of transit subsidy funds and more incentive to use those funds in the most cost-effective manner for local transportation. Third, that involving private transportation providers in the public transportation service delivery process will save significant amounts of money, and that this involvement can be structured so as to maintain both service quality and cost savings over time.

Let me review the evidence that has led to these convictions, particularly as that evidence relates to the feasibility and cost impacts of private sector contracting for transit service, and to the need for congressional action to make the benefits of this practice more widely available. The University of California, Irvine has recently completed a nationwide survey of approximately 1000 public agencies which sponsor public transit service, either operating such services themselves or contracting with another organization for their delivery. Essentially every relevant agency in the U.S. was surveyed, and a response rate of 75 percent was achieved. This survey found that 35 percent of these agencies already contracted for transit service, and that contracting was very popular for small transit systems and among municipal governments. Overall, nearly 300 public agencies are contracting for some or all of their transit service. In other words, private sector contracting for transit service is already an accepted practice among local governments, and there is nothing novel about this policy. Those who question the feasibility of transit contracting simply are not looking at the actual experience in this country.

The survey revealed something equally significant, however, which is that contracted services represented only about 5 percent of all operating expenditures of the agencies which were surveyed, and only 8.6 percent of all vehicle miles of service. Why this disparity between utilization and expenditures? Quite simply, because medium and large transit operations typically contract little or no service, and these are the operations which spend most of the money. Transit agencies which operate 250 or more vehicles are responsible for 80 percent of nationwide bus transit expenditures, but agencies of this size typically spend only a small amount on contracted service--less than 5 percent of their total expenditures. Typically, if they contract at all, they do so only for a limited demand responsive service for the elderly and/or handicapped. In fact, the largest all-bus operator in the nation, the Southern California Rapid Transit District, contracts for no service at all.

The pattern which we observe, therefore, is that of municipal governments and sponsors of small transit systems contracting frequently, often for an entire transit system, whereas medium and large regional transit authorities rarely contract for anything other than a small peripheral service. Contracting for fixed route service by transit agencies with more than 100 vehicles is particularly uncommon; less than 15 such agencies have been identified in the entire U.S.

The obvious question raised by these patterns of service contracting is why the agencies which stand to gain the most--in economic terms--from this policy are the ones which practice it the least. The answer is to be found in the incentive structure under which these large transit agencies operate. Two facts about medium and large transit agencies are particularly relevant in this regard. First, most agencies of significant size rely on dedicated sources of subsidy for most or all of their financing. As dedicated subsidy funds cannot be used for other local public services, this blunts the incentives for local decision makers to make cost-effectiveness considerations paramount in organizing transit service delivery. Second, because these agencies are long-established, their management and labor have developed a strong stake in a service delivery arrangement in which virtually all services are operated by agency personnel. Other service delivery arrangements are perceived as threatening to the well-being of both management and workers.

When these conditions are not present, however, service contracting becomes a widely used practice as local governments seek to maximize the cost effectiveness of transit operations. Evidence from the State of California and Los Angeles County, in particular, indicates how local governments are prone to organize transit service delivery in a relatively "free market" system of transit organization. In both cases, the majority of public agencies have opted to contract rather than operate transit themselves, and this can be readily explained by the incentive structure under which these decisions are made.

In California, local governments receive funds from a sales tax on gasoline which are placed in a Local Transportation Fund (LTF), the primary purpose of which is to subsidize public transit. Outside the state's largest urban areas (Los Angeles, San Diego, San Francisco Bay Area, Sacramento, and Orange County), these funds can be used for either transit or for local streets and roads, provided that all reasonable transit needs are met before any of the funds are used for highways. Given the pressing need for funds to finance highway maintenance, local governments have an obvious incentive to keep transit service costs as low as possible in order to maximize the amount of money which can be used for highway purposes. The preferred strategy for maximizing transit's cost-effectiveness is to contract for transit service. Over 170 public agencies in the state now contract for transit, and more than 55 percent of all individual transit services in the state are provided by private contractors. Contracting is the rule, not the exception, in those areas of the state where the LTF monies can be used for either transit or highways.

In contrast, in the largest urban areas of the state, where the LTF monies are restricted to transit, the situation is precisely the opposite--relatively little contracting occurs except for small scale services. Lest one believe that this reflects a preference by large governmental units for in-house operation, the experience of the Counties of Los Angeles and San Diego is revealing. In both counties, the County government is able to use LTF funds for either transit or highways in unincorporated areas of the county, and both Counties have chosen to contract for all the transit service they provide in such areas. On the other hand, the large regional transit authorities which operate in the urbanized areas of these counties contract for little or no service.

A similiar pattern of choices is found throughout Los Angeles County, where local governments are receiving approximately $70 million per year to finance local transit services from a local sales tax imposed in 1982. Although these funds are restricted to transit uses, for the typical city they are not generous enough to afford expensive service. Moreover, only 10 municipalities were already directly operating their own transit system when the sales tax went into effect, so there was a relatively clean slate vis-a-vis the choice between public agency operation and contract operation. At present, 37 cities contract with a private operator for their local transit service, compared to only 29 which operate the service themselves. Of the cities which began providing service after 1982, more than 60 percent opted to utilize a private contractor rather than operate the service themselves. In contrast, the established transit operators in Los Angeles County contract for no more service today than they did four years ago.

These results indicate quite convincingly that when the incentive structure is not biased against contracting, this policy will be willingly adopted by many local governments. But when transit subsidies are dedicated only to transit and these subsidies go directly to transit agencies which operate service, those who control service decisions have much weaker incentives to utilize contracting. Although it might be supposed that transit managers would be keenly interested in service contracting as a mechanism for cost constraint, such is only rarely the case. Transit managers have functioned in a monopoly setting for many decades, and most have accepted monopoly organization of transit operations as both necessary and appropriate. Moreover, transit management is extremely reluctant to diminish the size of the operating organization, which is often perceived as the basis for the agency's political influence and top management's reputation. This resistance to change can only be overcome through alterations in the fiscal incentive structure.

Assuming that the barriers to contracting can be lowered through a restructuring of incentives, what economic benefits can be expected if service contracting becomes a common practice in the transit industry? The research which we have conducted at UC Irvine offers convincing evidence that substantial cost savings can be realized through private sector contracting. Using a variety of techniques for comparing cost levels of public and private operators, differences of 10 to 50 percent have consistently been found.

The nationwide survey of transit contracting obtained operating cost information from both public agency operators and private contractors. On the basis of this data, it appears that public agencies are cost competitive with private contractors only for very small transit services, those with 25 or fewer vehicles. Even this conclusion may be incorrect due to the fact that many small transit services are already contracted, and thus the higher cost public agency services which would, in the absence of this contracting, have been in operation are not reflected in the public sector data. Among larger services, private operators clearly have a cost advantage, with private cost levels 12 to 38 percent lower for systems of comparable size of 50 or more vehicles.

In a typical contracting situation, a medium or large transit agency would contract with a private operator for some segment of its service, not the entire system. If the average cost per vehicle mile of private contractors which operate more than 25 vehicles in a contract service is taken as representative of private operating costs, and the average cost per vehicle mile of all transit agencies which operate more than 250 vehicles is taken as representative of public agency service costs, then the relevant costs are $2.24 per revenue vehicle mile and $4.07 per revenue vehicle mile respectively. This indicates that private contractors are 42 percent less expensive in such a situation. Compared in this way, the survey results indicate that the private contractor cost advantage is less for smaller services, but is still 4 to 29 percent for systems of 25 to 250 vehicles.

Another survey conducted by the University of Pennsylvania for UMTA has found similar results. The Penn survey concerned situations in which a public agency had competitively contracted for fixed route service.

requirement would substantially restructure the fiscal incentives under which the transit industry does business, with the net impact of creating far stronger constraints on cost levels. If Congress accepts the overall thrust of these proposals in drafting reauthorization legislation, it is my conviction that substantial benefits will flow to transit riders, the taxpayers, and the transit industry itself.

COST SAVINGS THROUGH CONTRACTING

Senator HECHT. Thank you very much.

Many of our witnesses have criticized the reported savings that can be achieved through private sector involvement or competitive bidding are illusionary or unreachable. You report that the opposite is true.

Can you comment on this?

Mr. TEAL. Certainly. As I indicated, the savings from Yolo County, CA, are incontrovertible. The county previously was spending over $1.4 million for its transit service. For precisely the same service it reduced its cost to $900,000. How can such a $500,000 savings be illusory? It's money in the bank to Yolo County.

Similarly, take the experience of Carson, CA, a small city in the southern region of Los Angeles County, that went out to bids for its local transit service. It chose a contractor that bid $18 a vehicle service hour. The nearest cost of a public organization was $37 per vehicle hour. How can one talk about illusory savings under those circumstances?

We've even contacted these four agencies which we've done the direct cost comparisons for. One agency suggests that our estimates of their cost savings are underestimates, not overestimates, because we have been quite conservative in our cost estimates from the private operators' side.

I submit to you that there is simply no evidence that these savings are illusory.

Senator HECHT. Any comment?

Mr. BROSCH. We've conducted similar studies at Rice Center and talked with the transit properties in Dallas and Houston and other major cities. While there's often a disagreement over whether it's a 30- or 40-percent savings or 50 percent, there's no disagreement that there are significant savings through the contracting.

Senator HECHT. Thank you.

A later witness will testify that contracting out can be marginally beneficial to some systems but that it will not service everyone well.

Are there some systems where contracting out would not prove beneficial?

Mr. BROSCH. Certainly, in an area like Las Vegas, NV, which you may be familiar with, Mr. Chairman, which has a private operator, the opportunities for contracting aren't there because they're doing it privately now.

In some systems that are very efficient, like Salt Lake City—an excellent system—contracting opportunities are fewer than in some other areas. But even in Salt Lake, they are looking at potentially contracting some of their services and feel that they can save some funds by doing so.

Mr. TEAL. I would say that the primary area where I would say contracting would be a problem is relatively small systems which would have to contract only a portion of their service. In those areas it would be a very difficult situation. If they contracted all their services it would be no problem, but for a 25- or 30-vehicle system to contract 5 or 6 buses probably doesn't make a lot of sense.

Senator HECHT. Mr. Teal, you state that elimination of section 13(c) is a desirable objective. Can you elaborate on some of the problems caused by this provision?

Mr. TEAL. I'm not quite certain that I used those exact terms.

Senator HECHT. Let me just check a minute. Is that what he said? Anyway, comment on it anyway.

Mr. TEAL. I'll be glad to discuss section 13(c).

Senator HECHT. Excuse me. I understand Mr. Brosch said that.

Mr. BROSCH. My written testimony includes the statement that section 13(c) has been very detrimental to contracting. I'd be happy to provide to this committee with a list of 20 different occasions throughout the United States where contracting has been inhibited through the existence of 13(c).

Senator HECHT. You don't have to answer now if you don't want to, Mr. Teal.

Mr. TEAL. My only response would be that section 13(c) tends to skew the local bargaining process and makes it very difficult to get local labor contracts written.

IMPROVEMENTS IN COSTS AND PRODUCTIVITY

Senator HECHT. The APTA statement maintains that labor costs and productivity are not a problem as has been reported and that if looked at in the proper context labor costs are down and productivity has significantly increased. Additionally, they say that ridership is up by 25 percent since 1972.

Can you comment on that?

Mr. BROSCH. I'd like to comment on part of that. In recent years I believe there have been substantial improvements in the transit industry, in transit management, in the leadership shown, and indeed in organized labor. Transit unions, in recent years have shown significant accomplishments.

In Houston, they now have incentive contracts where maintenance employees receive increases in their pay depending on the actual breakdown rate of the buses. There have been some tremendous improvements.

What is important is that section 13(c) has inhibited the fair competition of the private sector. It's also important that many of the private contracting firms are also unionized and those unions are losing job opportunities as a result of the public agency unions not allowing them to compete. It's not an organized labor issue. It's a matter of fair competition. I believe in recent years unions have made tremendous improvements in their attitudes toward labor productivity. A lot of them still don't allow the number of part-time drivers we believe they should, but some of them now do, and this is an important improvement.

[The following information was subsequently supplied for the record:]

Testimony of Gary L. Brosch
Additional Information for the Record
(Page 67, Line 18)

TYPES OF PROBLEMS ATTRIBUTED TO 13(c)

(Why 13(c) shouldn't apply to a Competitive Services Provision)

Studies by the General Accounting Office (1981) and the Urban Institute (1983) have attributed the following types of problems to Section 13(c):

o 13(c) inhibits innovation and efficiency

Management's ability to innovate and to achieve efficiencies, two real benefits of the infusion of competition into a monopolistic system, have been stymied by actual and potential 13(c) problems.

A 1981 UMTA analysis of paratransit agreements across the country found:

> About 75% of the agreements specified that the paratransit services be restricted, so as not to displace or compete with existing transit service, even if the paratransit services were more efficient;
>
> About 10% of the agreements placed geographical limits (fences) around where paratransit servicees could be developed, and
>
> Between 15 and 20% of the agreements placed constraints on the types of patrons who could be carried.

Knoxville, Tennessee - The UMTA Demonstration Program, the Knoxville Commuter Pool, instituted vanpooling programs and brokerage demonstrations.The communities were forced to agree to limit ridesharing activities to areas not served by conventional transit.

Seattle, Washington - King County's Commuter Ridesharing Program did not use UMTA funds because they feared restrictions on the ridesharing activities that could be imposed by organized labor through Section 13(c).

Santa Clara, California - All new equipment purchased with Federal funds must be operated by Santa Clara's own employees. This effectively prevented the transit agency from acquiring vans for its ridesharing/vanpool activities.

Boston, Massachusetts - The City was not able to get a 13(c) clearance for UMTA's funding of its ridesharing activities, and after much delay was forced to used alternative funding sources.

In 1979, MBTA filed an application with UMTA for 18-20 vans for use in a paratransit operation to be called "The Ride." The agency wished to contract to private operators, most of which employed non-union drivers. Upon objection from labor the project was held up for some three years. The paratransit operation is still not operational (Urban Institute).

San Antonio, Texas - The City was not able to get a 13(c) clearance for UMTA funding of its ridesharing activities, and after much delay was forced to used alternative funding sources.

o 13(c) restricts private sector participation - There are dozens of cases where it has been documented that unions have used 13(c), or the threat of 13(c) to severely limit or eliminate the possibility of competition;

Denver, Colorado - UMTA challenged a policy of the Denver Regional Transportation District that clearly stated that contracting would not be permitted on regular route service due to their labor agreement of March 1, 1985. The agreement was entered into five months after UMTA issued guidance to the transit authority that the private sector should be utilized "to the maximum extent feasible." Based upon this Denver situation, the Amalgamated Transit Union went to Capital Hill to legislatively attempt to stifle competition in public transit;

Chicago, Illinois - An arbitration award for a two-year labor agreement between the CTA and the local ATU bargaining unit contains a clause that prevents the CTA from hiring outside contractors to perform any work currently done by union members. This action was taken in response to recent CTA contracts awarded to four private companies that are contractually "taking over" the CTA's Dial-A-Ride Program for the disabled. The Authority had previously, under direct public operation of the E&D services, sustained an average unit cost of $28.61 per trip (n.i. capital costs) and was unable to maintain sufficient capacity to meet all the requests for service. By contracting the service to the private operators, the CTA is incurring a new cost that averages $13.46 per trip and ridership has increased 150%. The President of the union was quoted in a Chicago Tribune article, "There will be no more raids on our work;"

New York, New York - Union employees thwarted an areawide paratransit plan developed by the New York City Department of Transportation, when MTA employees demanded:

MTA provide the new service; or

Union employees be given the jobs; or

A prevailing wage rate be established for the system.

The NYC DOT, which had contemplated contracting out the service provision, eventually abandoned the project because of the prohibitive 13(c) demands.

Norfolk, Virginia - The Tidewater Transportation District Commission, in order to begin a vanpool demonstration program for the Navy base personnel in the area, entered into a 13(c) agreement that provided:

The project would not compete with existing bus routes;

The vanpools would be restricted to routes not served by a fixed-route bus;

Ridership would be restricted to military and related civilian personnel, and

Local union personnel would maintain the vans.

While the original intent of the project was to serve Navy personnel, the Commission was not able to expand service in response to requests because of the 13(c) agreement.

Additionally, the Commission had planned to contract out vehicle maintenance, but could not do so under the 13(c) arrangement. Management claims that by prohibiting the contracting out of vehicle maintenance, Tidewater incurred costs $20,000 greater over the two-year period than the Commission would have incurred had the work been subcontracted.

Bridgeport, Connecticut - The City sought to purchase 21 taxicabs for a shared-ride taxicab service in Bridgeport, Connecticut. The grant was to revive an ailing taxicab industry in that community. As a condition of allowing Federal participation in that project, the ATU and Bridgeport agreed to give first right to provide all other paratransit and conventional transit services to unionized transit employees, thus blocking further private enterprise participation beyond the shared-ride taxi project;

Washington, D.C. - In the late 1960's,the UMTA Demonstration program attempted to initiate a commuter subscription bus service with several suburban Virginia private bus companies. D.C. Transit employees, as part of a 13(c) negotiation, demanded a prevailing wage rate comparable to D.C. Transit. The private companies, whose wage schedules were lower than D.C. Transit's, were unwilling to pay two wage scales, and the project was abandoned;

Columbus, Ohio - The Metropolitan Planning Organization, not itself an operator of transit services, submitted a Federal demonstration grant application to use private, contracted shared-ride taxi services in low density residential areas to feed the local bus system. The bus system's union representatives refused to sign a 13(c) agreement demanding that union employees be given the jobs. After a three-year delay, the Department of Labor ruled that the project could move forward without union consent (Urban Institute).

Miami, Florida - As a part of an UMTA brokerage demonstration project, Dade County attempted to establish a shared-ride taxi program. The union delayed the project apporximately nine(9) months, because the union wanted to provide the service directly. The union eventually dropped these demands,and gained a 13(c) provision guaranteeing the size of their bargaining unit;

Kansas City, Missouri - UMTA and KCATA discussed the development of an innovative "check point bus service" in Kansas City. Kansas City was unwilling to pursue this service because of 13(c) constraints, which they believed would prevent institution of the service due to possible reduction of jobs resulting from the service change;

San Diego, California - A taxi feeder demonstration in San Diego is restricted by a 13(c) provision from "competing,replacing and displacing fixed-route service," thus preventing the further use of private enterprise should that prove efficient;

Minnesota - The DOT expressed reservations in undertaking a contracted "taxi-feeder" system, because of union resistance through 13(c);

Palo Alto, California - The City attempted to initiate a downtown shuttle service. The private operator who won the competitive contract was unwilling to undertake 13(c) responsibility, because of the undefined liability for existing transit employees;

Boston, Massachussetts - The MBTA attempted to receive "no prejudice" authority from UMTA to rehabilitate 96 old diesel rail cars originally belonging to the Boston and Maine Railroad. The B&M operated commuter rail service under contract to MBTA. The MBTA honors the B&M collective bargaining agreements, which provide that rehabilitation work can be contracted out to the private sector, if the B&M:

Lacked proper facilities; or

Lacked needed managerial capability; or

Lacked sufficient employees to perform the work; or

Lacked sufficient time to complete the work in-house, within schedule.

B&M management contended that all four conditions were present, but the Shop Craft Union of the Brotherhood of Railway Employees objected, and forced the MBTA to use state funds for initial rehabilitation work.

o 13(c) aids Labor in gaining new rights - Organized labor has repeatedly tried and in many instances succeeded in gaining new rights through 13(c) agreements:

Nashville, Tennessee - The transit authority signed a 1973 13(c) agreement containing an interest arbitration clause, believing that the right to arbitration extended only to the terms of the 13(c) agreement. In 1979, the unwilling authority was ordered into binding arbitration by the Federal District Court over an impasse in collective bargaining negotiations. Thus, the union was granted a new tool for collective bargaining even though the unioin retained the right to strike. Management estimated the cost of the arbitration award (which included an initial 17% pay increase and extensive health care benefit enhancements) at $779,000 annually, although the GAO believes this figure to be slightly overstated. Subsequently, a large fare increase and significant service curtailments were necessary (unpublished GAO material).

Brockton, Massachusetts - The transit authority, in order to contract out its demand-responsive elderly and handicapped paratransit services to a private operator, agreed under 13(c) to guarantee the size of the bargaining unit for 4 years. (If BAT had given the new paratransit work to union personnel, costs to provide that service would have been higher. Management believes that the higher cost of using union personnel would have financially prevented the DIAL-A-BAT project. This is because the participation and financial support of local social service agencies would have been more difficult to obtain.) During the course of the four-year period, "Proposition 2 1/2" limited the local agency's ability to provide service; accordingly, service cutbacks were imminent. The bargaining unit refused to abate the guarantee, despite the fact that Brockton did not have the funds to maintain service levels. As the budget crunch neared, some BAT members of the bargaining unit were unavailable to work, and BAT was able to avoid the 13(c) consequences of its agreement, which ended in 1982. Though the situation was not disastrous for Brockton, it could have just as easily been so (Urban Institute).

- 13(c) has resulted in delays to projects - Federal assistance has sometimes been delayed for years because management and labor have been unable to reach agreement in the 13(c) process:

  El Paso, Texas - The City of El Paso has complained to UMTA that although their employees are not unionized, union officials have caused 4-5 months delays in their receiving operating grants. El Paso has incurred large interest charges because of their inability to receive UMTA funds in a timely manner.

  Jackson, Mississippi - The City of Jackson desired to initiate a ridesharing and elderly/handicapped project utilizing vans in both the peak and off-peak periods. When attempting a 13(c) agreement, they received no

The public agencies which responded to the survey reported cost savings of up to 50 percent, with an average reported saving of 29 percent. For example, an excellent comparison of public and private cost levels is available in Yolo County, California, which is in the Sacramento area. In 1983, Yolo County switched from purchasing service from the Sacramento regional transit authority to contracting with a private operator. The service specifications were essentially identical for public and private operators. As a result of contracting with a private operator, Yolo County reduced its service cost by 33 percent. This is an ideal comparison, as nothing was different about the service except for the operator, and the precise service costs of each operator are known.

At UC Irvine, we are presently developing cost models to estimate the cost differences of such direct substitution of private contractors for public operators in existing transit systems. These models have been applied to four medium to large transit agencies, and have indicated cost savings of 12 to 39 percent for such provider substitutions. These are estimates of actual savings, taking into account the fact that many administrative functions of the public agency will not be eliminated due to contracting. The largest savings, moreover, are for the largest systems, where estimated savings of 20 to 39 percent have been calculated. It bears mentioning that one of the agencies believes we have significantly underestimated the cost savings of contracting due to the conservative assumptions used in developing the private operator cost methodology.

An extensive literature on contracting for all types of public services provides further evidence of the reasonableness of these estimates of cost savings. These studies on other public services found savings of 15 to 50 percent with private contracting, with an average savings of 30 percent. Moreover, there is some evidence to indicate that partial service contracting will reduce public agency cost levels over time.

Taken together, these studies on the cost impacts of contracting indicate that savings of up to 50 percent are likely, with most agencies experiencing savings of 20 to 30 percent or more. It seems plausible to conclude that medium to large transit agencies can save a minimum of 15 to 30 percent by contracting out segments of their system.

The results of the research conducted to date indicate that private sector contracting is a workable and effective strategy for reducing transit service costs, one which is widely utilized when appropriate incentives are in place. Transit service contracting represents a way out of the false dilemma of less service, higher fares, or more subsidy. By contracting for some of their service, transit agencies can help maintain services and fare levels within the limitation of existing, or even lower, subsidy levels. Few other policy instruments are available which can achieve the same objective. But in order for local governments to take advantage of the fiscal benefits of competitive procurement of transit servuce, Congress must first change the incentive structure surrounding local transit service decisions.

Current fiscal and organizational incentives are not appropriate to cause most medium and large transit agencies to willingly contract for a significant amount of their service, and in fact often retard contracting. UMTA's proposals to establish a block grant mechanism for allocating local transportation funds, to require competitive procurement of a minimum percentage of service, and to eliminate the 13(c) union response for nearly one year. The project was eventually undertaken.

- 13(c) has interfered with the collective bargaining process - The 13(c) requirement gives labor an interim opportunity to renegotiate particular provisions of the contract, particularly if the contract provides for binding interest arbitration. The stakes and costs in this negotiation process are much higher for management than for labor... (a prerequisite for competitive negotiation are "even" stakes). Examples of how 13(c) has impacted the collecting bargaining process follow:

  Norfolk, Virginia - In 1979, in collective bargaining negotiations with the Tidewater Transportation Commission, the Union used Section 13(c) to:

  Support the unions right to interest arbitration over the issues in dispute;

  Support a suit to force the agency to continue complying with the previous labor contract that expired during negotiations, and

  Interrupt the certification process for a new Federal operating grant until the collective bargaining dispute was settled or until interest arbitration provisions were included in the 13(c) agreement.

  Management claims that the possibility of a delay in receiving the Federal funds caused the agency to be concessionary than would otherwise have been the case.

Senator HECHT. Any comment, Mr. Teal?

Mr. TEAL. The data that I've seen which was put together by a staff member at the U.S. DOT Systems Center, does indicate the productivity of the industry has improved since 1980, but it also indicates that labor compensation is still rising at a faster rate than the inflation rate.

PUBLIC-PRIVATE PARTNERSHIPS

Senator HECHT. Mr. Brosch, at the end of your statement you point out some of the public-private partnerships to capture the value by the existence of transit systems. Can you elaborate on this?

Mr. BROSCH. I'd be happy to, Mr. Chairman.

In a number of systems—I'll give you specific examples. There are major public-private partnerships such as in Denver where a benefit assessment district encompassing its transit mall is providing funds for maintenance of the transit district. The merchants there have agreed to the district. It could never have been done without their agreement. A few didn't, but the majority did.

In Miami, the people mover in Miami, not the rail system, is funded partially through a benefit assessment district raising $22 million.

In California, the State legislature has now authorized benefit assessment districts to help fund their proposed rail system.

In small areas, indeed in Champaign, IL, that you heard from earlier, there's a very unique circumstance of a local grocery chain paying one-half of the subsidy of a specially painted bus. And, in Springfield, MA, merchants are subsidizing bus operations on Sundays and the Christmas holiday season to try to get longer periods of operation that benefit those merchants. They're actually subsidizing the bus service.

Certainly the proposed major transit system in Las Vegas has potential to be privately funded and is a major opportunity for public-private partnerships.

These examples exist in very small systems and in very large systems.

Senator HECHT. Is this a common practice being adopted around the country?

Mr. BROSCH. I believe that virtually every transit system in America that is considering any major improvement is now looking at ways to capture the value and use these public-private partnerships.

There are a few, the ones I named like Denver, Miami, and Champaign, IL, who have actually implemented them, but all of the others that are considering public-private partnerships—from Dallas to Houston to Las Vegas and Los Angeles—are all now or will incorporate these in their overall financial plan.

Senator HECHT. Thank you very much.

It's 11 o'clock. We're going to have a 5-minute recess for the stenographer to rest and then we'll be back in 5 minutes to continue.

[Recess.]

Senator HECHT. Senator Sasser, did you have any statement at all you wanted to say?

Senator SASSER. No, thank you, Mr. Chairman. I'm looking forward to hearing at least a portion of the statements here this morning.

Senator HECHT. Mr. Sherlock and Mr. Cotter.

Mr. SHERLOCK. I'll introduce the others if you'd like, Mr. Chairman.

Senator HECHT. Please.

STATEMENT OF NORMAN R. SHERLOCK, PRESIDENT AND CEO, AMERICAN BUS ASSOCIATION, WASHINGTON, DC, ACCOMPANIED BY WENDELL COX, FORMERLY ON THE LOS ANGELES TRANSPORTATION BOARD; AND TED NAPPAN, TRAILWAYS CO.

Mr. SHERLOCK. Thank you. We appreciate the opportunity to testify today on some changes in the Urban Mass Transportation Act which can bring about a greater level of private sector involvement and more cost-efficient mass transit service.

I have with me Mr. Wendell Cox, who is a foremost expert in this area and was formerly on the Los Angeles Transportation Board an appointee of Mayor Tom Bradley. I also have Ted Knappan of Trailways available since they are doing some private contracting in mass transit.

At the outset I'd like to make a couple of points as backdrop to our position. The association has never opposed adequate funding for mass transit. We did not oppose the earmarking of the 1-cent-a-gallon fuel tax for mass transit, even though we were urged to do so at some point by various interests.

So we do not regard our posture as being hostile to public mass transit entities. In fact, with their cooperation we can do a good deal to help them cope with their current problem of meeting the demand for service in the face of local taxpayer resistance and concern about the costs, as well as diminished Federal funding.

INVOLVEMENT OF PRIVATE OPERATORS

The membership of the association includes private bus companies who are now engaged in mass transit and many others who are interested in doing so if institutional and practical roadblocks can be cleared away.

The end result could be better service for the public, substantial savings for local mass transit authorities, and less pressure on taxpayers' dollars.

That's why the idea of involving private operators in mass transit needs to be promoted. It saves money and it makes good business sense.

Contracting is particularly timely in terms of what's happening today. There is a cost crisis in transit. Transit unit operating costs increased 52 percent in real terms from 1970 to 1983. At the same time, the costs in the private sector declined 3 percent. In 1983, it cost $3 to provide the same level of transit service which $2 bought in 1976 after adjustment for inflation.

These cost increases have absorbed about 55 percent of the substantial new funding which transit has obtained since 1970.

This cost performance is typical of an environment where there are no competitive incentives for better equipment utilization, streamlining overhead organization, and labor productivity.

With this set pattern and public funding constraints, the riding public is paying through higher fares and lower service levels. It is clear that something needs to be done.

There's nothing inherently essential about public sector monopoly in this area and that kind of thinking could only lead to greater deficits.

There is nothing revolutionary about the idea of private contracting. A large number of municipalities and other public agencies now use private firms to operate public services through competitively bid contracts. The trend is international in nature and it includes things such as school bus transportation, postal service, garbage collection, and others.

Private contracting has worked where it's been tried. In Los Angeles County, for example, Santa Claria Local, an express system, saved more than 50 percent and the contractor pays the capital expenses as well.

Whether private contracting is available in the future depends a good deal on what this committee does. We have conducted seminars across the country to educate private bus companies about the opportunity and we have found there is widespread interest.

At the same time, we found there is opposition to private contracting by some transit officials and most particularly by organized labor. All we ask is that this committee keep the door open to this option. One area where you may wish to look in the near future is toward Miami, which has now agreed to open 10 percent of its services to competitive bidding and there is considerable concern that organized labor may try to block it. That may provide a test case for you.

We believe it would be desirable to establish a definitive amount of Federal money for competitive bidding. This would not restrict the prerogatives of public transit authorities since they would decide which routes and services to bid out. If that were for the least patronized routes or services which lose the most money, the potential savings would be the greatest.

This approach does not promote cream skimming but it certainly helps by deficit skimming.

In any event, the attempt of organized labor to shut the door on private operators by changing current law should be completely rejected.

The most important thing that this committee needs to do is to give greater meaning to the UMTA Act which says that private operators should be given the opportunity to participate in mass transit service to the maximum extent feasible.

CHARTER ACTIVITIES

Now about a second facet of this debate, the charter activities of public mass transit authorities. Clearly these authorities need to concentrate on providing adequate levels of basic transportation to the commuting public along with some special services. We believe they should be confined to the mission for which they were originally created, to get people to and from work and to assure urban mobility for basic purposes.

There is no reason to allow them to depart from this basic mission in order to engage in nationwide touring charter service. Some transit authorities have sought to use the provision in the bus regulatory format as a loophole to obtain this authority. This was never intended by that act and the chairmen of the House and Senate committees at the time of the passage of that legislation have stated so for the record.

Nonetheless, since the Interstate Commerce Commission made a distorted interpretation to grant such authority to Manchester Transit, the door could be opened to others. This would mean that mass transit authorities could depart then from their basic mission to use their subsidized advantage to take the business of private operators who are establishing this service.

Attention needs to be paid to transit authorities' local charter activities as well. UMTA has issued proposed rules that would prohibit the use of federally funded equipment and facilities for charter service if a fit, willing and able private operator is available.

That set of proposed rules needs to be broadened since they only preclude transit agencies chartering when they're using funded equipment by the Federal Government.

The point is that it is the Federal Subsidy Program that has enabled a given transit authority to grow to its current size and its position, whether or not a particular bus is funded by UMTA. Therefore, so long as a mass transit authority continues to participate in the UMTA-supported program and receive Federal funds it should not be permitted to provide charter service.

Thank you, Mr. Chairman. That completes my statement.

[The complete prepared statement follows:]

THE PRIVATE SECTOR AND THE URBAN MASS TRANSPORTATION ACT OF 1964

TESTIMONY OF NORMAN R. SHERLOCK, CHAIRMAN AND CHIEF EXECUTIVE OFFICER AMERICAN BUS ASSOCIATION

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to testify here today concerning how the Urban Mass Transportation Act of 1964 should be changed. ABA strongly supports changes in the Act that bring about a greater level of private sector involvement in the provision of mass transportation services and as a consequence, produce more efficient use of mass transit subsidies.

ABA is the national trade association of the intercity bus industry and represents approximately 900 privately owned and operated bus companies, many of whom have a great interest in becoming more deeply involved in providing mass transportation service. These carriers have the ability to provide mass transit service more efficiently than it is generally being provided today, but are being prevented from contracting to provide that service by entrenched public sector entities opposed to such private sector participation.

We believe that the Act intended a public-private partnership that has never been achieved; in fact, transit service has fallen farther and farther away from this goal over the last twenty-two years. This failure has meant that the public has been denied cost effective use of transit subsidies through healthy private-public competition.

As has always been the case, ABA takes no position with regard to the precise transit funding level that is appropriate, but it is clear that there are unprecedented budget restraints on the transit program. Given these restraints, it is critical now to amend the Act to change the direction of the last twenty-two years and to require cost effective transit subsidy use through greater private sector participation.

I

THE ACT'S PURPOSE TO CREATE A PUBLIC-PRIVATE PARTNERSHIP HAS BEEN DEFEATED

Congress intended the urban mass transportation program created by the Act to be a coordinated public-private partnership producing a more efficient transportation system. In the House Report accompanying the Bill which ultimately became the Act, President Kennedy's words, "The program is not intended to foster public as distinguished from private mass transit operations" are cited with strong approval. (H.R. Rep. No. 204, 88th Cong., 2nd Sess.).

The Act itself clearly reflects this underlying intent. Indeed, the opening sentence of the Act describes it as intended "to provide additional assistance for the development of comprehensive and coordinated mass transportation systems, both public and private in Metropolitan and other urban areas ..." (49 U.S.C. 1601 et seq.) (emphasis added).

In finding that federal financial assistance was essential "for the development of efficient and coordinated mass transportation systems", Congress listed three purposes of the Act -- to develop improved mass transportation facilities and methods "with the cooperation of mass transportation companies *both public and private*"; to plan and establish areawide urban mass transportation systems "with the cooperation of mass transportation companies *both public and private*"; and to provide financial assistance to such systems, "to be operated by *public or private* mass transportation companies as determined by local needs" (49 U.S.C. Sec. 1601) (emphasis added).

Clearly the purpose of the Act to create efficient mass transportation systems based on public-private partnerships has not been achieved. Mass transit systems are far less efficient; overall transit costs have increased by more than 500% while total passenger ridership has actually declined. (Compare tables 6A and 9, *Transit Fact Book 1985, American Public Transit Association*). At the same time, the transit role of the private sector diminished dramatically to almost nothing. From 1970 to 1983 the number of transit passengers carried by private sector intercity carriers was reduced by almost 90% (*Transit Fact Book* 1985 at table 17). At present, approximately 95% of UMTA funding goes to public sector mass transportation providers with the other 5% going to their private sector "partners".

A much greater concern for the private sector has been the growing use of federally funded equipment and facilities to provide charter, tour and sightseeing service in direct competition with private sector intercity carriers. The situation has become even more serious because of the very recent court decision in American Bus Association v. ICC, Civil Action No. 85-1270 (DC Circuit, March 31, 1986) which affirmed a grant of nationwide charter and special operations authority to Manchester Transit, an UMTA subsidized transit agency. This means that transit agencies now have the potential to engage in subsidized nationwide charter, tour and sightseeing service.

Clearly, these developments were not contemplated by the framers of the Act, and legislative modifications are necessary to correct this variance. The Act specifically excludes charter and sightseeing service from the term "mass transportation" (49 U.S.C. Sec. 1608(c)(6)) and prohibits subsidized transit agency charter service that would "foreclose private operators from the intercity charter bus industry" (49 U.S.C. Sec. 1602(f)). Yet, UMTA has "conservatively" estimated that the diversion of charter revenue by subsidized transit agencies from the private sector is 45 million dollars annually, which is larger than the net operating profit of the entire industry (51 Fed.Reg. 7893 We believe that the actual diversion is probably in excess of 100 million dollars since transit agencies often do not report to UMTA those charters conducted within an urban area, which make up most of the subsidized charter activity. The reason for this ongoing violation of the basic intent of the Act is that although over the years UMTA has promulgated regulations intended to limit charter activity to "incidental", fully compensatory charters, these regulations have proved fruitless, and UMTA itself has come to the conclusion that they are unenforceable. The only sure way to stop this perversion of the Act's intent is corrective legislation prohibiting transit agency charter activity.

Although the UMTA program has moved increasingly away from the originally intended public-private partnership, the fact that approximately 40 billion dollars have been expended on this program and that transit ridership has gone down has obviously caused some careful reassessment by UMTA over the last several years concerning the role of the private sector. This has produced the first positive steps towards resurrecting private sector participation in mass transit.

The first step was UMTA's issuance in October 1984 of a policy statement entitled Private Enterprise Participation in the Urban Mass Transportation Program. This policy statement was intended to "promote greater reliance on the private sector in the provision of mass transportation services ..." by requiring integration of private operators into the planning process and full consideration of the use of private operators for new or substantially restructured services. More recently UMTA has issued guidelines concerning what documentation on private sector participation that transit agencies must produce in order to receive UMTA funding. Generally, transit agencies are asked to show the extent to which they have considered private sector contractin how much they are actually using it, and if there are impediments to private sector contracting, what they have done to remove those impediments.

On the charter front, after many years of delay UMTA has issued proposed charter regulations that would preclude the provision of charter service by either public or private operators using UMTA funded equipment or facilities.

Finally, UMTA has established an Office of Private Sector Initiatives in order to encourage the development of private sector involvement in mass transit. It says a great deal about the bureaucratic view of the importance of the private sector in providing mass transportation that it took over twenty years to establish a very small office to focus on this issue.

Even these very modest efforts to reform the program have encountered an incredible backlash from vested public sector interests. Legislation has been proposed by the Amalgamated Transit Union that would gut the already weak private sector provisions in the Act; efforts have been made to abolish OPSI; and APTA has attacked the proposed guidelines on the grounds that "no demonstrated need exists for additional guidance, regulation or legislation", In light of these developments, it is clear that if the original intent of the Act to create a public-private partnership producing an efficient mass transportation system is to be implemented, legislative action is necessary to reverse the deteriorating trends of the last 22 years. Perhaps in times of plenty, annual expenditures of billions of dollars on a program that is not being carried out as intended and that is not producing the expected results can be tolerated, but such is not the case in the present budgetary era. Legislative changes are necessary to make the UMTA program work efficiently, and we believe that the record demonstrates that the way to accomplish that objective is legislation that encourages greater private sector participation.

II

PRIVATE SECTOR CONTRACTING IS A MORE COST EFFECTIVE USE OF FEDERAL SUBSIDY DOLLARS

Although the private sector largely has been locked out of transit service over the last two decades, there has been a gradual increase in the contracting of transit services to private sector entities on a competitive basis over the last several years. These new projects have demonstrated over and over that private sector contracting can produce the same or a better level of service at substantially reduced costs. Cost savings range from 20 to 60% with no diminution in service levels or quality.

There are numerous examples of private sector success stories. Perhaps the most prominent is the Dallas Area Rapid Transit (DART) experience. DART is a newly formed regional transit authority that decided to contract for a comprehensive regional park and ride express bus service. After a competitive bidding process, the contract, which now totals 98 coaches on 11 routes, was awarded to Trailways Lines, Inc.

In the first year of operation, ridership grew from 3500 passengers a day to 10,000 passengers a day for service provided in new, over the road motor coaches. DART figures indicate that revenue from the service is contributing 58% of operating costs, as compared to 32% of costs covered by fares of the city operated service.

Thus, the city reportedly has saved 9 million dollars in the first year of this program.

There are many other similar success stories. In Westchester County, New York, private bus companies provide countywide service on a contract basis. A private company, Liberty Lines, operates 450 buses a day carrying 125,000 passengers and gets an annual subsidy of 3.7 million dollars. By comparison, Nassau County with a publicly operated bus system, receives an 8 million dollar subsidy and carries substantially fewer riders.

There are several strong California examples. In Los Angeles County, Santa Clarita Valley express service is provided by a private sector contractor, Antelope Valley Stages, which is providing the service at a rate more than 50% less than the estimated subsidy costs for public operation and the contractor is paying all capital expenses. In Yolo County, California, the entire local transit system and express commuter service is being privately provided at a savings of more than 50% from the public cost. In Carson, California, a privately provided local circulation system is saving 70%.

Not to be outdone by Dallas, Houston also has done substantial private sector contracting. It has privately contracted express service involving 84 buses and reportedly is saving at least 32%. It also has just recently contracted for a demonstration local circulator project in the Clear Lake City area with projected savings of approximately 50%.

Another express service just recently contracted for is in Snohomish County, Washington. There the county has contracted for a 60 bus commuter express service that is at least 30% less costly than the previously provided public service.

Similar savings have been achieved with regard to specialized service such as elderly and handicapped transportation. For example, the Chicago Transit Authority put its elderly and handicapped dollar ride program out to bid. The results have been that the private contractor savings have enabled CTA to double its service with the same subsidy level and to avoid building a new maintenance facility and purchasing new vehicles because those are being provided by the private operators

These examples demonstrate conclusively that private sector contracting can produce substantial cost savings while providing service at least equivalent to that of the public providers. The question naturally arises, how do these private operators produce these cost savings? The basic reason is that private operators are totally focused on operating a quality service as efficiently as possible because this is the only way to profit and survive economically in the highly competitive arena created by the Bus Regulatory Reform Act of 1982 and the other transportation deregulation legislation.

This focus reflects itself in several distinct ways. The first and perhaps the most significant in terms of federal subsidy is better equipment utilization. UMTA's Section 15 figures indicate that the average transit agency peak period spare bus ratio is now 43%. To a private operator, this is in incredible figure. Private operators strive to have all of their buses operating at peak periods and would rarely have more than 10% of their buses sitting idly as spares at peak periods. This is a critical factor in terms of reducing UMTA subsidies since the federal government is paying 80% of the purchase cost of these spare buses, and bus and related equipment purchases make up the bulk of federal bus transit subsidies.

Second, competition requires private operators to maintain as streamlined an overhead organization as possible. For example, the entire 1985 administrative and general expense account of Trailways, ABA's largest member, amounted to only 8.6% of Trailways' total expenses. This account included all executive and office salaries and expenses, all legal salaries and expenses, all accounting and general office salaries and expenses, and all communication expenses. Because of its nationwide operations, Trailways' administrative and general expenses would undoubtedly be much higher than the average ABA member. By comparison, UMTA's Section 15 data reveals that the average 1983 comparable administrative and general transit agency costs represented 19.8% of total operating costs.

Third is better labor productivity. This does not mean low wages or non-union work; most established private sector bus companies are unionized and generally the wages paid are comparable to city transit employees. For example, in the Westchester County situation described above, the private operator employees have salaries and benefits similar to their public sector counterparts and belong to the same union, the Transport Workers Union.

Private operators, however, have avoided many of the work rule provisions of public transit agencies that inflate wage costs without corresponding revenue production. This means greater employee productivity.

Up until now, I have talked about what private contracting does do; now I would like to address what private sector contracting does not do, in order to expose some of the "red herrings" thrown out by those opposing the concept.

First, private sector contracting is not "cream skimming"; on the contrary, it could be described as "deficit skimming". It is up to the local public decision making body to decide on what routes or types of service are to be contracted out. This means that the local transit agency can choose to contract out through a competitive bid process for its biggest money losers, such as peak period express services or off peak local services, with the expectation of reducing subsidy needs. There is no opportunity for the private contractor to "skim the cream" since it has no say in what service is to be put out for contract.

Second, private sector contracting is not an effort to remove the public sector from transit decision making and to return transit to an era of total private service. Rather, it is a way to meld the best that the public and private sectors have to offer. Public transit agencies or other local bodies remain as the primary decision makers in defining and planning for the public's transit needs and in monitoring and controlling the process for meeting those needs. The private sector is left to do what it does best, that is, to operate efficiently in a competitive environment. Furthermore, the public transit agency itself should not be precluded from participating in competitive bids for contract services as long as bid awards are fairly based on full cost allocations for all parties.

Nor does private sector contracting mean a reduction in the quality or quantity of service available to the public. Again, the local public body is the one that is responsible for defining the quality and quantity of service to be performed under the contract. In the most recent cases, transit agencies have defined specifically the frequency and type of service to be provided and some are so detailed that they even prescribe the driver uniform that is to be worn. Moreover, these contracts tend to be for a period of time -- usually three to five years -- that is long enough to make it economically attractive for the contractor, but short enough to maintain quality, cost effective performance because of the threat of loss of the contract at renewal time.

Finally, private sector contracting is not a threat to transit union jobs; rather, it is an opportunity to preserve, and quite possibly, expand transit employment. Most established private bus companies that are substantial enough to bid on major transit contracts are unionized, often by the same union representing the local transit agency employees. There is no question that the inevitable further reductions in federal transit subsidies threaten transit jobs, both union and non-union. Clearly, the way to preserve these jobs is to make transit service more cost effective and thus provide the same amount of, or more, service with a reduced subsidy. Time and again, it has been shown that the best way to do this is through private sector contracting.

III

LEGISLATION IS NEEDED TO ENHANCE THE PRIVATE SECTOR'S ROLE IN MASS TRANSPORTATION

Clearly, the private sector's role must grow if strong mass transportation systems are to be maintained and expanded in the future. It is equally clear that that growth will not be achieved to the extent necessary without substantial changes in the Act. Although the Act contemplated a full private-public partnership, the reality has been that the private sector's role in mass transit dwindled to almost nothing over the first twenty years of the Act's existence and although there has been renewed interest in private sector contracting recently, private participation on a percentage basis remains tiny. Real change is likely to occur only if the Act itself is changed to enhance the role of the private sector. We have several suggestions to make in this regard.

The most important change that needs to be made, in our view, is an absolute prohibition against charter and tour activity by UMTA funded transit agencies unless there is no willing and able private operator in the involved area. Diversion of charter revenue by subsidized transit agencies has been a major problem for the private sector and that problem has the potential to become a disaster in light of the *Manchester Transit* decision authorizing nationwide transit agency charter operations. There are roughly

60,000 public sector transit buses, compared with 25,000 privately owned and operated buses. This fact, coupled with the astronomical spare ratio of many transit agencies, means that public sector transit agencies are large and powerful enough to seriously weaken the private sector, which relies primarily on charter revenue, and thus remove it as a source of cost effective mass transportation service.

UMTA has issued proposed rules that would prohibit the use of federally funded equipment and facilities for charter service if a fit and willing private operator is available (51 Federal Register 7892, March 6, 1986). ABA applauds UMTA for taking this action, but believes that it is not an adequate substitute for our proposed legislative change. First, it has taken UMTA approximately a decade to come to grips with the inadequacy of its existing regulations, and this history indicates that timely implementation of the proposed rules is not likely.

Moreover, the proposals do not go far enough in that they only preclude transit agency chartering when using UMTA funded equipment. The point is that it is the federal subsidy program that has enabled a given transit agency to grow to its present size and market position, whether or not a particular bus is UMTA funded; thus, as long as that agency continues to participate in the UMTA program, it should not be permitted to provide charter service. Moreover, the limitation of the charter prohibition to UMTA funded equipment would render the prohibition extremely difficult to enforce given the difficulty in distinguishing by observation the difference between UMTA funded and non-UMTA funded buses.

It is also extremely important to prevent any further weakening of the existing provisions of the Act that mandate that there be private sector participation in mass transit to the "maximum extent feasible". We have shown that this existing statutory encouragement of the private sector has been very limited, but apparently one of the transit unions has decided that even this is too much. The ATU has proposed to water down the "maximum extent feasible" standard by language making the standard applicable only when "consistent with state and local laws, policies and contract obligations ...".

The effect of this amendment would be to render the "maximum extent feasible" standard meaningless since any public sector transit agency or other local body that chose for whatever reason not to deal with the private sector could simply adopt a policy or enter into a labor contract provision against private sector participation. Local agencies and union locals would have the power to arbitrarily rule out the option that most often would provide the most cost effective use of federal transit subsidies. Such a provision is exactly the wrong way to go at a time when maximizing the cost effectiveness of federal subsidies is the highest priority.

To the contrary, the time has arrived to strengthen the language of the Act in order to produce more efficient use of federal transit subsidies through greater utilization of the private sector. The Administration, in Title III of its proposed Surface Transportation Reauthorization Act of 1986, has provided a well thought out, comprehensive proposal for accomplishing this objective. ABA supports this approach.

The heart of the Administration's proposal is the requirement that by 1990 local areas have 20% of their total transportation service subject to a competitive bid process open to any public or private mass transportation entity willing and able to provide such service. Given the fact that the Act was intended to be a full partnership between the private and public sectors, this proposal mandating that only 20% be such a full partnership is really quite modest. Indeed, a strong argument can be made that a much larger percentage should be required.

Another important part of the Administration's package is the requirement that private sector services be given full consideration in the planning and evaluation process and that any competitive evaluations must include the "fully allocated costs" of both public and private operators. There is an understandable reluctance on the part of local agencies not to consider the costs of equipment and facilities in their analysis since these items are paid for primarily with federal funds, but it is critical to maximizing the cost effectiveness of federal dollars that the total costs, both capital and operating, be included in the evaluations of whether the public or private service is less costly.

It is clear that the vague language of the Act must be strengthened if private sector involvement is to increase satisfactorily, and we believe that the general approach of mandating increased levels of competitive opportunities for private operators is the most direct and effective way to get the job done. But there are other approaches involving incentives for greater private sector participation, rather than mandates, that the Committee may wish to consider.

UMTA Administrator Stanley has already taken what should be an effective step in this direction by his Dear Colleague letter of November 18, 1985. There, Mr. Stanley indicated his intention "to give priority consideration to Section 3 capital grant applications from those transit operators who demonstrate significant utilization of competitive bidding for service as well as provide other private sector opportunities to reduce or minimize various transit operating costs". We suggest that the Committee consider statutory language that builds this "priority consideration" into the Section 3 program. This could be a strong incentive for transit agencies to broaden their competitive services activities.

Similarly, consideration should be given to building the same kind of incentives into the Section 9 formula program. One way to do this would be to provide that any area that achieves a minimum threshold of competitive service provision, such as 20% of total service, would be entitled to a bonus of perhaps 5 or 10% of its annual subsidy amount based on the normal population-mileage formula.

Another incentive approach would be to adjust the 80/20 percentages for capital assistance based on an area's competitive service utilization. When the framers of the original Act in 1964 set the maximum federal level of participation at two-thirds of the net project cost, strong emphasis was placed on the belief that "the requirement that the community pay one-third of net cost in cash will give the community a strong motive to hold costs to a minimum and establish fares which will yield adequate revenues" (H. Rep. No. 204, 88th Cong., 2nd Sess.). Most of this motivation was removed ten years later when the local share was reduced to 20%.

We suggest that the Committee reestablish some of that motive for local cost savings by a provision that areas be entitled to retain the favorable 80/20 cost ratio only if they have maximized cost savings through competitive bidding of services including full consideration of both and private and public operators. Again, this test would be met by the local area achieving a certain minimum percentage of competitive service.

If a local area did not achieve this threshold, then the share of matching federal funds that it is entitled to would be reduced, perhaps to 70%. Such an approach would not only be effective, it is very logical in that the federal government should not be expected to continue to subsidize at the same high rate local areas that are not maximizing their opportunities to reduce costs.

ABA urges the Committee to consider all of these alternatives and to adopt changes in the Act that will be effective in reducing transit subsidy costs by increasing the private sector's role in providing mass transportation service. Thank you very much for the opportunity to present our views, and I would be happy to answer any questions that you may have.

Senator Hecht. Thank you.

Mr. **Cotter**. One final comment. I would like to point out that the private sector interest is so strong that we have recently formed the Coalition for Competition in Public Transportation.

Senator **Hecht**. Thank you. You mentioned a Coalition for Competition. Who is in it? Is it a broad spectrum of potential providers?

Mr. **Cotter**. There are 13 members of national scope and it's very broad. It includes the ITA, the ABA, ATE, Ryder, the United Bus Owners of America, Greyhound, Trailways, the National School Transportation Association, Vanpool Services, Inc., Laidlaw, the Airport Ground Transportation Association, the Metropolitan Transportation Association, and others.

Senator **Hecht**. Some have asserted that we need to study competition further before we try to implement it. Is competition so new that it has to be studied? Do you have any experience that suggests it works?

Mr. **Cotter**. I have been providing service under a contract to a public transit district for 11 years and they have studies that prove that we have saved them substantial funds. And, no; I don't think contracting is new or unproven.

IMPEDIMENTS TO PRIVATE SECTOR INVOLVEMENT

Senator **Hecht**. Thank you. Mr. Sherlock, could you identify what impediments to private sector involvement exists at the State and local level?

Mr. **Sherlock**. Well, certainly, Mr. Chairman, the way in which the provision of section 13(c) labor protection is being manipulated poses a very formidable barrier, if nothing else, psychologically at least in the mindsets of some transit officials who feel they have no other alternative but to use consistently the union-provided service and fashion their negotiations and their contracts with that in mind.

In fact, section 13(c) is being misinterpreted in the daily workplace today and there is no reason that it should be in existence at all, in our minds.

Senator **Hecht**. Many of the transit operators have testified that while there are some aspects of the Transit Program that can be carried out by the private sector, interest by private providers disappears when confronted with the true responsibilities of providing a broader range of service.

What are your reactions to this statement?

Mr. **Sherlock**. Well, the charge is a little confusing. The fact of the matter is that private businesses will respond to whatever contract service is being put out. If they want to do it on a fixed route and that is what the bid is for, the carrier will respond to that. He can't be asked at the same time to respond to every facet of the local transit service if it's not within the scope of the contract bid.

I can assure you there is no place where private enterprise does not respond well to the idea of providing service under contract and that, I would think, would be a sustainable function for us on into the future so long as the need is there for the service.

Senator **Hecht**. The private sector interest in providing transit service has been described as being only concerned with picking up the most lucrative routes.

What are your respective industries' interest in and, more importantly, your capabilities for greater involvement?

Mr. SHERLOCK. Well, there is no cream today in mass transit. It doesn't pay its own way. Under the mechanism that we have discussed, we can get at deficit skimming by using private contractors.

The mechanism suggests that the decisionmaking would remain with the local transit authority as to what would be bid out. If it were the least patronized route and the most costly and the private operator would bid on that and take that service, then they can save the most money.

We can deal with the most heavily traveled routes, the most heavily used services, or the least, depending on what the local need is.

Senator HECHT. Many of the witnesses before the committee have stated that the current act provides enough incentive to utilize the private sector.

Can you comment on that, either one of you?

Mr. SHERLOCK. Well, history suggests that that's not the case. There's only about 4 percent at the very most of private contracting taking place. It seems to us that the committee needs to firmly fix in the minds of transit for the future that this is a desirable alternative option. Reaffirmation of existing congressional policy would be helpful as guidance.

In my testimony I point out that nothing has essentially happened of any great magnitude since the act was passed and yet it is clear in all of the legislative intent that's described in that statement that the position of private operators was to be maintained, if not improved.

The President of the United States, President Kennedy at that time, said it very well. The committees focused on that and expressed that sentiment, but it has not been carried out in the day-to-day operations of the transit authorities.

Senator HECHT. Do you want to comment on that?

Mr. COTTER. In terms of the taxicab industry, we are open 7 days a week, 24 hours a day. We are available for any and all contracts. More specifically, as an industry we have a history of taking on the routes, service times, and service that options most transit authorities do not want to handle.

We're the people that are out there when the buses close down at night and someone needs a ride. We're not looking for the cream. We're just looking for an opportunity to bid to provide service at a fair price.

Senator HECHT. Many of the witnesses before the committee have stated that the current act provides enough incentive to utilize private sector. How do you feel about this?

SPECIFIC SET-ASIDE FOR COMPETITIVE BIDDING

Mr. SHERLOCK. Well, we don't think that it does. We do believe you should investigate a specific set-aside to assure that a portion of the funds provided would be susceptible to competitive bidding in order to be sure that this concept does take greater root in public policy.

Mr. COTTER. We've only been able to participate where we've fought scratched and clawed. That's not really the intent of the bill and, therefore, if there were a specific set-aside for competitive procurement of service it would be much easier for us to be part of the process.

We have been excluded wherever possible. That is not the intent of the law, but that, as a practical matter, is what has happened.

Senator HECHT. What would you like to see changed?

Mr. COTTER. I would like to see specific areas—or percentage of the operating budget—that would have to be put out for competitive bid.

Senator HECHT. Mr. Sherlock, the APTA's statement maintains that transit ridership is up 25 percent from 1972. Your statement says that there has been a decline.

Who's right?

Mr. SHERLOCK. Well, let me clear up a little confusion about two sets of numbers. In my original oral statement I said the cost increase had been absorbed over the years by the cost crisis in transit is 5.5 percent; it's 55 percent that's been absorbed.

Second, we looked at this assertion by APTA. It's not correct and I had asked Mr. Wendell Cox to look at that specifically, if you'd like him to respond.

Mr. COX. Mr. Chairman, while we do not have precisely the same data that APTA has, the 1972 to the present date, we do have 1970 to the present and 1975 to the present.

From 1970 to the present, the increase in public transit patronage in the United States was approximately 5.5 percent. From 1975 to the present, the increase in public transit patronage was about 11.0 percent.

Senator HECHT. Let me just interrupt. Please identify yourself for the record.

Mr. COX. I'm sorry. My name is Wendell Cox. I'm an independent consultant in public transportation.

Senator HECHT. Thank you. Please continue.

Mr. COX. Thank you. Now I personally would have to say it would be highly unlikely that there was an increase of 25 percent from 1972 to the present if there was only a 5-percent increase from 1970 to the present and only an 11-percent increase from 1975 to the present.

However, beyond that, our testimony did not indicate—or Mr. Sherlock's testimony did not indicate that there had been a decline since 1982. It indicated that there had been a decline, I believe, since 1980, which there has been and which APTA data will support.

Mr. KNAPPAN. Mr. Chairman, I'm Ted Knappan with Trailways. I think more to the point in terms of the overview of the UMTA Act, since 1964, when the UMTA Act was passed for the purpose of enhancing public transit, overall transit costs are up approximately 500 percent and ridership is down. And that's the bottom line on the performance under the UMTA Act.

Senator HECHT. Thank you. Mr. Cotter, do you have anything on that?

Mr. COTTER. No, sir.

Senator HECHT. Thank you.
Mr. Cotter.

STATEMENT OF WILLIAM L. COTTER, JR., PRESIDENT, YELLOW CAB CO., HARTFORD, CT; REPRESENTING THE INTERNATIONAL TAXICAB ASSOCIATION

Mr. Chairman, and Distinguished Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss the reauthorization of the Urban Mass Transportation Act of 1964. I am Bill Cotter, president of the International Taxicab Association (ITA) and owner of Yellow Cab Company of Hartford, Connecticut. ITA is the sole national representative for the taxicab industry. We have members in all fifty states and in every major U.S. city. We represent over 600 fleets and our members operate approximately 60,000 passenger vehicles.

The U.S. taxicab industry transports nearly 2 billion people a year, 60% of whom are transportation disadvantaged (e.g. elderly, disabled, young, low income). We also provide 241,000 jobs (33% are unionized). This tremendous public service is accomplished without public subsidy.

The average taxicab organization is family owned, operates 15 passenger vehicles, provides transportation service to the general public (24 hours-a-day, 365 days-a-year) and provides transportation service under contract to one or more clients.

At the Committee's direction we have divided our testimony into two parts, one dealing with "program funding levels" and the other with "program design."

Program Funding Levels

We support a reduced level of Federal funding for two reasons. First, reduced funding leads local decision makers to re-examine their methods of operation, thereby affording the private sector an opportunity to be heard. Second, the tax paying public benefits when local decision makers re-evaluate and adjust their programs to be more affective and efficient.

Public sector awareness of private sector capability and willingness to discuss cooperative programs resulted directly from financial pressures. When federal assistance was plentiful, transit programs grew with abandon. Efficiency and utilization of existing resources (contracting) were given low priorities. During this period, publicly subsidized operators' costs soared at super inflationary rates; however, private sector costs increased at or below the rate of inflation. The end result is that the private sector can now provide the same (or higher) level of service for specific programs at lower (generally 10 to 50% less) cost.

We support the concept of block grants when they afford state and local decision-makers broadened flexibility in meeting specific local needs.

Program Design

The Urban Mass Transportation Act needs immediate, significant fine tuning. Failing this, a major re-write or abolition of the Federal program may be in order.

The introduction of reasonable competition is the single most significant advancement to be made in public transit. By reasonable competition, we mean the competitive procurement of service among qualified, responsive public and private bidders. The determination of "qualified" and "responsive" would be left to the local decision-makers (assuming good faith and reasonable standards). [The myths about competition are addressed in Attachment 1.]

The concept of contracting is not new or uncommon in the taxicab industry; neither is contracting to provide transportation service for public agencies. Over half (55%) of all taxicab companies report that they provide transportation service under contract. For example, the Greater Cleveland Regional Transit Authority has been contracting with Yellow Cab of Cleveland for a portion of its specialized service for the elderly and disabled for 12 consecutive years.

The clients that contract with the taxicab industry for transportation service are: private companies (66.3% of all taxicab companies report having one or more contracts with this client group), social service agencies (56.1%) hospitals (51.1%), schools (41.6%), private citizens (37.9%), city agencies (28.0%), transit authorities (14.4%), and other public agencies (12.9%). Contracting accounts for approximately one-quarter of the industry's gross revenue.

Section 3(e) of the Urban Mass Transportation Act conditions Federal financial assistance on a finding that local transportation programs "shall encourage to the maximum extent feasible the participation of private enterprise." The taxicab industry desires and is prepared to play its vital role to provide public mobility. We will work independently and in concert (under contract) with public transit operators.

The concept of contracting for transportation service is not innovative, untested, or, in general, terribly complicated. Taxicab operators now provide: demand-responsive service for elderly and/or disabled passengers, user-side subsidy programs, off-peak fixed route service, additional peak service, night-time fixed route service, feeder service, rural service, low density dial-a-ride service and weekend programs. However, the public transit industry lags behind almost all other client groups in contracting with the taxicab industry for two reasons.

First, the taxicab industry is the world's best at providing paratransit service (personalized, demand-response service). The public transit industry has just recently started to provide large scale paratransit service. To public transit's credit, 48% of the most prominent type of paratransit service (the transportation of elderly and/or disabled passengers) is contracted. And I am pleased to tell you it is the taxicab industry that provides the majority of this service.

The second reason that public transit lags behind in contracting is the design of the Federal program. Specifically, the Federal subsidy program provides a funding bias that works against the private sector, as does the Section 13(c) labor protection clause.

The funding bias encourages transit authorities to purchase and operate rolling stock even where contracting for the provision of service is more efficient. The local decision is skewed toward purchasing equipment (which can be funded up to 80%), then running that equipment (which can be funded up to 50%) instead of contracting for service (which can only be funded up to 50%). This financial incentive to purchase equipment works against the private sector operators who already have the needed equipment. A relatively simple correction is to provide the same level of financial assistance for purchase of service as that currently provided for purchase and operation of equipment. (We estimate that Federal funding of up to 60% of the cost of the purchase of service agreement [from capital and operating funds] would provide equality in financing.)

The repeal, or at least modification, of Section 13(c) would go a long way toward providing a fair opportunity for the private sector and its employees. As currently practiced, the negotiated 13(c) clause to transit-labor contracts has, in many cases, been used to fence out private sector participation via anti-contracting clauses. It is our position that the local recipient of UMTA funds is a trustee of federal funds and has the obligation to use them to provide efficient/effective public transportation. The ability to negotiate away a portion of their trustee obligation (by fencing out various alternatives) should be prohibited. The vested interest of the labor force, as the vested interest of public and private operators, is not the same as the public interest. Neither labor nor operator interests should be permitted to supercede the public interest.

Equity and the sense of fair play call for the correction of the funding bias and the placement of appropriate restrictions on Section 13(c). The public good calls for further adjustments to the Urban Mass Transportation Act.

We recommend that this Subcommittee adopt the following three steps to institutionalize competition in public transit.

The first (and the most important) would be to require competition in contracting services. In each area receiving Federal transit funds, a portion of service (operations and maintenance) should be put out for competition each year. The amount would be five percent of the local transit operating budget the first year, increasing to twenty percent by the fourth and staying at that level thereafter. A local publicly controlled process would select and compete service with equitable participation by public and private operators.

Next, we need to encourage the growth of private enterprise in public transit decisions. This will be accomplished by upgrading UMTA's existing private sector policy to the level of statute. It would require that private providers be given the opportunity to participate in service decision-making before the public hearing stage; that public operators consider using private operators to provide federally subsidized service; and that fair cost comparisons be made in evaluating the costs of public/private operators.

Third, private operators should be represented on transit policy boards, to the extent allowed by State or local law. In addition, provisions should be added to the planning requirements to ensure that private operators are fully involved in the planning process.

The benefits of reasonable competition are accepted throughout our society. The fact that our market economy is based on ordered competition has served this nation well. Public transit is no exception. Where reasonable competition has been introduced, savings to the public of 10 to 50% have resulted. I am also pleased to point out that the paratransit area has documented the highest percent savings.

Like any monopoly, public transit is slow to embrace competition. But the public good mandates that competition be presented as an alternative to fare increases and/or service cuts that are so openly discussed by public transit today.

The benefits of competition are clear and undeniable:

. Savings from ten to fifty percent in service costs.

. Alternatives to the traditional industry response of service cutbacks and increased fares when faced with budget pressures.

. Greater flexibility and services more closely matched to the changing travel patterns in individual communities.

- Funds saved through competition can be plowed back into transit, to expand or preserve existing services threatened by budget cuts, and save (or create) jobs.

- Less tendency for public entities to acquire their own equipment and to compete with a variety of privately-provided services, such as charter, school bus, and taxicab.

- Incentives to avoid over-capitalization.

- Reduction in the cost of publicly-provided service because of the competitive forces brought into play.

- Easing of budget outlay problems for both federal and local governments. Outlays for contracting will be more gradual than up-front outlays for capital equipment.

I have presented a picture of an issue whose time has come; of a private sector that is willing and able to participate; of a public system that desperately needs the advances competition will bring; and of a tax-paying, transit-riding public who want efficiency brought by innovative service delivery instead of the investment of billions.

The time is now. We implore this Subcommittee to lead the way in providing for competition in public transportation.

Attachment 1

MYTHS ABOUT COMPETITION IN PUBLIC TRANSPORTATION

FICTION: Private providers will take only the "best" routes, leaving the "worst" lines for direct public provision.

FACT: Wrong. Both economics and the self interest of the public agencies will work to belie this fiction. In the first place, the public transit agency, not the private provider, decides which lines will be contracted. But more importantly, the greatest financial gains come from contracting out the "worst" routes. Lower private sector operating costs in fact create the greatest gain in the routes that have the highest subsidies. The savings thus created can either be used to balance budgets, or to increase service levels on the "good routes" where patronage is higher.

FICTION: Contracting with private carriers is a prelude to complete privatization and the extinction of public transit agencies.

FACT: The opposite is true. The public transit body always remains in operations. Competitive contracting -- with private or public -- operators strengthens the public transit agencies by offering them a way to control costs and extend services. The public transit agency maintains its essential policy-making role by determining the lines to be contracted, schedules, transfer arrangements, marketing plans and fares associated with those routes, and, ultimately, the contractee. Even the quality of service is monitored by the public body.

FICTION: Competition is "union busting".

FACT: Contracting may actually be the way to keep union jobs. Without the cost savings that contractors could have provided, some transit agencies have already been forced to make cuts in services, eliminating union jobs. By contracting out the biggest money losers, transit agencies have more money to expand the more profitable -- usually union-run -- routes. It is, by the way, a deliberate fiction to say that all jobs contracted to private operators will be non-union. Sixty percent of private bus workers are unionized, as are thirty-three percent of taxicab workers.

FICTION: There may be a cost advantage to private contracting now, but as contracting grows that cost advantage will vanish.

FACT: Not likely. Contracts with private carriers have fixed terms. When the term of a contract is up, it must be rebid. If the private provider permits costs to escalate too rapidly, the contract would be lost to competitors. Unlike fully public systems, private operators have a constant incentive to remain competitive.

FICTION: Contracting will lead to urban transit chaos.

FACT: The only difference between the contracted service and the public service is the reduced expense to the transit agency. The contractor-operator has no impact on scheduling, routes, or ease of transfer. The same public agency that awards a contract to a private operator coordinates the contracted route into the over-all transit scheme.

FICTION: Private operators will raise fares -- hurting the poor -- on the routes they run for the public agency.

FACT: The public transit agencies -- not the operator -- set the fares. Private operators have no say: they merely provide a service for the public agency. In reality, the cost savings generated through increased use of private providers contributes to the public agency's ability to keep fares low. Without such savings (private operators can provide transit services for ten to fifty percent below what it would cost to get those same services from public operators) public agencies are constantly forced to raise fares, hike taxes, or curtail services -- all of which is having and has had a severe impact on the poor, the elderly, and others who are dependent on mass transit services for their mobility.

FICTION: The private sector has already failed at providing urban mass transit. Contracting will only bring transit systems back to the brink at which they were before the public sector took them over twenty-five years ago.

FACT: The only similarity between 1960 and 1986 is in the existence of non-competitive monopolies in providing public transportation. Until the late 1950's private businesses operated area transit monopolies, without competition. And, in 1986, public transit authorities operate area transit monopolies, without competition. The problems of high costs, inefficiencies, etc., are similar. Contracting -- to the benefit of the public transit agency will bring in competition. Costs are lower. Services are broader. And the public interest is maintained and guaranteed by the public transit authorities.

FICTION: Contracting sounds fine on paper, but one cannot be sure that broad-based competition will serve, in practice, the public good.

FACT: That's a tired fiction. Contracting is already used to provide a wide array of formerly public-monopoly services. The statistics from actual transit contracting situations have consistently confirmed that contracting is an extremely effective means to quality service at lower cost. The International City Management Association recently surveyed 3,130 cities and 1,570 counties in an effort to look at contracting of public services. The survey disclosed that sixty percent of the respondents were already using private firms to contract for a wide variety of services, including residential trash collection (34% of responding jurisdictions); tree trimming (30%); street repair (26%); traffic signal installation and maintenance (25%); vehicle towing and storage (78%); ambulance service (23%); day care facility operation (34%); and fleet management/vehicle maintenance (30%).

In few of these areas are the potential public benefits of contracting as substantial as they are in urban transportation.

Senator HECHT. All right. Let's go on. APTA maintains that some critical questions regarding increased private sector involvement have not been addressed, such as effective and sustainable involvement for the long term.

Is private sector involvement only short term by nature?

Mr. SHERLOCK. Private sector involvement will be there as long as there is a need for service to be provided and there is an opportunity to obtain that business through competitive bidding.

Certainly the local transit district would have to sustain the opportunity for contracting for private enterprise to be fully responsive.

There is no case where private business has failed to respond to that kind of an incentive and that kind of need.

Senator HECHT. Any response, Mr. Cotter?

Mr. COTTER. The private sector has been around for a long time. As long as the competitive bid process is realistic we'll be around to provide whatever service is requested.

Senator HECHT. So you would like to see more private sector in the future?

Mr. COTTER. I certainly would. I think we could save the government a lot of money and provide better service to the public.

Senator SASSER. Mr. Chairman, may I interrupt just a moment?

Senator HECHT. Sure, Senator Sasser.

Senator SASSER. I apologize for doing so. I'm going to have to go to the Appropriations Committee and I would like to make an opening statement.

Senator HECHT. Of course. Without objection.

OPENING STATEMENT OF SENATOR SASSER

Senator SASSER. Thank you, Mr. Chairman. We're this here morning to discuss an issue of vital importance to our cities and rural communities both today and tomorrow, the future of mass transportation in America.

In the wake of last evening's events, there may be a temptation to focus on developments in other parts of the world. But I think it's important, especially so, to keep our attention directed at developments here at home. I can't emphasize enough the importance of an effective mass transit system to the continued vitality of our Nation's cities. We have worked hard in Tennessee, as we have around the country, to rebuild and restore our downtown areas, and to provide our urban dwellers, many of them low-income, with cities they can be proud to live in. To jeopardize continued revitilization of urban areas by ignoring their transportation needs seems penny-wise and pound foolish.

Because of this, I can say one thing with certainty: I do not agree with the administration's proposed reauthorization legislation. I believe the administration's proposal to combine highway and transit funding in a single formula block grant to the States is ill-founded, as are its proposals to cut transit funding from over $3 billion per year to just over $1 billion, to eliminate operating assistance except for small systems, and to eliminate labor protections.

Mr. Chairman, I hope that we can use these hearings to begin to develop a more thoughtful, more compassionate, and more realistic approach to reauthorization than the alternative we have been given here.

Also, Mr. Chairman, I would request that some questions that I have propounded to Mr. Stanley also be included relative to the reorganization of the Urban Mass Transit Administration and other matters be submitted for the record and a request made that Mr. Stanley respond to these questions in a timely manner.

Senator HECHT. Fine.

Do you have any questions for this panel?

Senator SASSER. No, sir, I do not. Thank you, Mr. Chairman.

Senator HECHT. Thank you, gentlemen, very much. I think we'd better check before we start the next panel because I'd hate to start and in 2 minutes be interrupted, but please come up and we'll check about the vote on the floor.

Let's proceed and if I have to leave for a moment you will understand.

Mr. Frank, Mr. Premo, Ms. Shaffer, and Mr. Turney.

STATEMENT OF WARREN H. FRANK, EXECUTIVE DIRECTOR, CENTRAL NEW YORK REGIONAL TRANSPORTATION AUTHORITY, SYRACUSE, NY, CHAIRMAN, AMERICAN PUBLIC TRANSIT ASSOCIATION, ACCOMPANIED BY JEROME C. PREMO, EXECUTIVE DIRECTOR, NEW JERSEY TRANSIT CORPORATION; VICKIE SHAFFER, GENERAL MANAGER, TRI-STATE TRANSIT AUTHORITY, HUNTINGTON, WV; AND DAVID TURNEY, PRESIDENT, LUMINATOR, PLANO, TX

Mr. FRANK. First of all, it was very nice meeting you recently and I enjoyed the conversation we had. I want to take a moment to say good morning and thank you for the opportunity to appear.

Senator HECHT. Thank you for coming.

Mr. FRANK. The full statement of the American Public Transit Association is available for the record. I would like to summarize how we as the representatives of 350 operating systems and 400 manufacturers and suppliers of the industry view the need to reauthorize the Federal Transit Program before October 1.

OVERVIEW OF FEDERAL PARTICIPATION

Senator Hecht, more than 8 billion mass transit trips were taken by Americans last year. Such usage would not have occurred had not the Federal Government forged the intergovernmental partnership in support of mass transit some 20 years ago.

The challenge facing this subcommittee is to build on the success of the past and reaffirm the Federal role into the 1990's.

It is our belief that the Federal commitment to transit must be underwritten at not less than the current funding levels.

We support extension of the Federal program in its basic form. The current program structure in place for 2 years has been successful. In addition, our stewardship of Federal resources has been sound, but investment needs continue to mount in excess of current funding from all sources.

To those who claim—and I was going to take this out but I think it's well put—to those who claim that transit productivity and performance have declined with Federal, I say "bunk," and I mean just that.

An examination of the accepted measures of efficiency and effectiveness before and after the watershed year of 1975 shows clearly that transit is now doing more at less cost, in part because of the Federal program.

Our answer to others who say that transit costs have risen faster than inflation, I say make your assessment with a more valid index than the Consumer Price Index, and you will find a pattern of favorable trends.

Senator Hecht, we are equally proud of our industry's track record in managing labor costs. Our wage settlements compare favorably with the private sector. For instance, annual wages increased between 1976 and 1982 in manufacturing in excess of 82 percent. In transportation and public utilities it was almost 81.5 percent. In nonmanufacturing, excluding construction, 77 percent. In major collective-bargaining agreements for all industries it was 77 percent. But in transit, only 68.6 percent.

We are doing more every day to eliminate automatic COLA's, increase part-time labor, and engage the private sector where it makes good economic sense and good public policy.

Under the very real pressures of the Federal deficit, reductions in Federal operating assistance levels can be an inviting target, but it's important to remember that Federal operating assistance provides the critical difference between life and death for the hundreds of small transit systems which form the backbone of transit in America.

Senator Hecht, as the old saw goes, if it ain't broke, don't fix it.

We cannot support the administration's ground transportation block grant approach because it is really just a vehicle for the withdrawal of Federal funding for transit disguised in a cloak of new federalism.

What we do like is the approach being taken by Senator D'Amato in legislation he has developed. The Senator from New York would stay the basic course, and we urge this subcommittee to give very careful consideration to his proposals.

Two concluding thoughts on administration of the current program at UMTA and privatization. There is much that can and should be done to speed the flow of Federal dollars that Congress has already approved. We applaud Administrator Stanley's new guarantee of grant approvals within 90 days, but many of our members are angry and terribly frustrated over the roadblocks and hurdles that seem to stand between them and the funds Congress says they should have.

Our written testimony makes specific recommendations for improvements.

Finally, let me state we support greater integration of the public and private sectors in mass transit services. When it makes good economic sense to those at the local level we are for it and have been, but privatization is not a quick and easy solution. It is a complex issue and we pledge to work with the administration and the Congress to promote cost-effective integration of public and private providers that does not compromise the quality of services.

That concludes my statement. My colleagues and I are ready for your questions.

[The complete prepared statement follows:]

AMERICAN PUBLIC TRANSIT ASSOCIATION
TESTIMONY BEFORE THE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

APRIL 16, 1986

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STATEMENT OF THE AMERICAN PUBLIC TRANSIT ASSOCIATION BEFORE THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS OF THE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

APRIL 16, 1986

INTRODUCTION

Good morning Mr. Chairman and members of the Subcommittee. As representatives of the American Public Transit Association, we are pleased to have the opportunity to appear before you today.

The American Public Transit Association represents over 350 bus and rail transit systems across the country which carry 95 percent of all transit riders in the United States. In addition, APTA's membership includes over 490 manufacturers and suppliers of transit equipment, consultants, contractors, state and local departments of transportation, planning agencies, and universities.

We are appearing today to discuss issues related to reaffirming the federal commitment to public transportation and the reauthorization of the federal transit program. Mr. Chairman, throughout America today, public transportation is at a crossroads.

For the past 20 years, the federal government has been an essential catalyst and partner in rebuilding, sustaining and improving basic public transportation services in both urban and rural areas across the country. In 1982, the federal commitment in support of public transportation was strongly reaffirmed and expanded with the enactment of the Surface Transportation Assistance Act of 1982. The challenge before us today is whether that commitment will be sustained in the coming years or whether the essential federal partnership will be abandoned.

A number of factors bring us to this crossroads today. Not least among them are the budget and deficit pressures that threaten our ability invest adequately in programs, facilities and services that are so vital to our nation's future. In fact, the accumulated deficits since only 1981 have now equalled or exceeded the cumulative deficit since the founding of the country. Clearly, the deficit problem has a significant impact on national policy and spending choices.

A second factor that brings us to a crossroads is our continuing infrastructure crisis. While deficits have grown out of control, we as a nation have actually reduced our investment in essential public services and facilities - our nation's infrastructure. Since 1975, inflation-adjusted investment in essential public facilities and services has declined 30 percent. This chronic under-investment means we have been continually mining and depleting past public investments that have traditionally provided the base for economic growth and expansion. Even in view of our deficit problem, it is vitally important that this past pattern of infrastructure disinvestment be reversed.

A third factor which brings us to the crossroads is the introduction of new intergovernmental philosophies, some of which directly call for the wholesale abandonment of the federal role in a host of domestic programs.

The final and most significant factor is that the federal highway and transit programs are due to expire on October 1, confronting us with the immediate question of how to maintain and extend the long-standing federal commitment to balanced and effective transportation for America.

It is our firm belief that the federal commitment to public transportation must be extended, and must be supported at certainly no less than current funding levels for the immediate future. In view of the need for action on reauthorizing legislation in the next several months and the desire for stability in the flow of federal funds, we strongly urge extension of the federal transit program in its current form without significant change.

It is our belief that the current program has been highly successful, that stewardship of federal resources has been sound and that critical transit investment needs continue to mount, well in excess of current levels of funding from all sources.

THE TRANSIT PROGRAM IN RETROSPECT

In proposing extension of the current federal transit program, it is important to understand the major contribution and the very positive impacts that the federal program has had over the twenty years since it was first enacted.

Federal investment in public transportation over the period since 1965 has totaled more than $40 billion. In its initial years, federal support sponsored the public acquisition of the vast majority of privately-run transit systems which, in the 1960's and early 1970's, could no longer be responsive to the combined public policy demands and the modern day economics of providing public transportation services. The initial transition to an essential public service took more than 10 years to accomplish. Since the mid-1970's, following this transition, federal support has been the catalyst in the rebirth of public transportation throughout the nation.

When considering the amount of federal assistance that has been made available, it is important to note the critical nature of the investments that have been made and the considerable extent to which these investments have improved the safety, reliability and use of public transit in recent years:

- Since 1965, the nation's entire fleet of transit buses has been replaced at least once as vehicles have reached the end of their useful lives. Over 67,000 new vehicles have been delivered for use;
- Over 6,000 new rail cars have been delivered since 1965 to systems serving the most transit-intensive urban centers of the nation;
- Hundreds of new bus maintenance facilities have been constructed or rehabilitated to help maintain the investment in new rolling stock and support higher levels of safety, comfort and reliability demanded by the public;
- Totally new systems and services have been developed in urbanized areas which before were without any service, leaving residents totally dependent on the automobile;

  Nearly 1,000 new systems and services have been started and are now serving rural areas around the country; an equal number of special service systems for elderly and disabled persons are now in operation because of the federal investment;
- Critical major reinvestment and modernization have been made possible in eight of the nation's largest areas where rail services and facilities, often dating from the early 1900's, serve millions of riders daily;
- New high-capacity fixed guideway systems are now in operation in seven additional areas, with construction well underway in several others and advanced planning and engineering taking place in a dozen more.

These investments have been made not only to address immediate needs, but also with an eye to the future, when the availability of balanced transportation services will no longer be an option, but a necessity in order to sustain local, regional and, therefore, national economic vitality.

The federal investment made to date has not only replaced, revitalized and expanded essential transit facilities and services, it has prompted billions of dollars in new and more efficient economic development, supported millions of jobs and promoted a 25% increase in transit ridership since 1972.

These significant transit ridership increases have been the subject of some confusion, however. The Administration has often suggested that transit use is not significant and that public transit does not contribute in any significant way to reducing urban congestion. The basis for these observations has been statistics on the percentage of total trips made on transit, nationwide. These percentages are extremely misleading, however, and provide a very incomplete basis for national program and policy decisions.

First, the importance of public transit is not to be measured only in "percent of trips", but rather by the increasing numbers of people riding and who those riders are. DOT's own reports to Congress document the very high proportion of transit ridership among low income individuals. In the 1984 Section 310 report, the Administration noted that 71% of transit riders earn less than $20,000 and 40% earn less than $10,000.

A second concern is that the ridership statistics cited by the Administration are national aggregate figures which have little relevance in assessing the vital role of transit in reducing peak period traffic congestion where congestion problems are most severe. Averaging total transit use or work trip transit use over the entire nation and declaring it insignificant is like averaging out total rush-hour automobile travel over the entire national street and highway network and suggesting there is no congestion problem.

Transit, particularly peak hour transit service, is absolutely vital in virtually all the most heavily traveled corridors and urban areas of the country. The importance and role of transit must be analyzed at this level, as well as through the use of national aggregate figures if misleading and incorrect results are to be avoided. For instance, census figures from 1970 to 1980 showed a decline in the percentage of workers using transit to get to work (the absolute number of riders, however, increased). If, however, data from just three of the nation's most heavily transit-dependent urbanized areas, are excluded, the national aggregate figures show an overall increase from 1970 to 1980 in the percentage of workers using transit for the nation as a whole. The point is that great care must be taken in using national aggregate figures and understanding the underlying activity being measured.

A recent study sponsored by UMTA and conducted by the University of Pennsylvania provides a new insight on the importance of worktrip transit use which reinforces the industry's own assessment. In speaking about the loss of transit services and the impact on congestion and our nation's cities, Professor Stephen Putnam suggests that, "the ensuing switch from bus and train to car that would be caused by transit's elimination would be disastrous."(1)

Perhaps more telling is data from the National Personal Transportation Study, published in November, 1985 showing that despite trends from the past decade, more recent information indicates that the percent of workers using transit to get to work increased from 1977 to 1983.

In view of the preceding discussion, we believe it is clear that the achievements of the federal transit program over the past 20 years have been positive and considerable. From the point of view of the riders, taxpayers and communities now being served there is little or no evidence that the federal role in the transit partnership should be changed significantly or abandoned. Past investments have been badly needed, they have been made wisely and prudently and they have had a decidedly positive benefit and impact that will continue into the future.

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(1)"Stating the Obvious," Mass Transit. March, 1986, p. 38.

STEWARDSHIP OF FEDERAL RESOURCES

The accomplishments that have occurred under the federal transit program are not limited to a strict accounting of the materials and equipment that have been purchased, updated and put into public service. It is equally important to point out that the deployment and continued use of federal resources, in combination with expanding state and local resources, particularly in recent years, has been carried out with significant improvements in productivity and performance.

In their joint efforts to effectively and efficiently meet the mobility requirements and the related goals of their respective communities, transit policy makers, managers and employees have been extremely good stewards of public funds. This is best shown by contrasting performance and productivity trends in transit before and after 1975, the year in which the federal transit program matured into a broad-based source of support, providing assistance for both capital investment and transit operations.(2)

Productivity. In public transit, productivity typically is expressed in terms of labor productivity, or the amount of output per employee. Among the measures of transit productivity, the two most common are passengers per employee and vehicle-miles per employee.

Between 1970 and 1975, before the enactment of federal operating assistance, and as the difficult transition from private service to public service was winding down, productivity trends were negative, as might be expected during the restructuring of any industry. However, from 1975 to 1980, as the federal transit program grew and matured along with the public systems, productivity trends changed dramatically. The rate of decline in vehicle-miles per employee from 1970 to 1975 was cut nearly in half during the following five year period, 1975-1980.

More importantly, the declining trend in passengers per employee during the earlier period was totally reversed. The 7.6% decline from 1970 to 1975 was turned into a 14.4% increase in passengers per employee between 1975 and 1980. Since the

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(2)The material presented in the following discussion is excerpted from "Transit Performance and Productivity 1975-1980: Improvements Through the Intergovernmental Partnership, "American Public Transit Association, May, 1985.

object of any transportation system is the movement of people, the most appropriate and significant measures of productivity are those tied to the number of passengers carried. Measured in these terms, the productivity trend in public transit has been decidedly positive in recent years.

Efficiency. Efficiency is most often defined as the ratio of costs or expenses to the amount of service produced. The two principle measures of economic efficiency in public transit are cost per passenger and cost per vehicle-mile, both adjusted to account for inflation. In both cases the experience after 1975, which coincides with the greatest growth and expansion of the federal transit program, has been decidedly positive.

Before 1975, the real costs per vehicle-mile rose 33% in the five-year period. In the five-year period after 1975, real costs per vehicle mile registered no increase.

More importantly, the trend in real costs per passenger turned totally around. In the five-years before 1975, real cost per passenger had increased 36%; in the five years following 1975, real cost per passenger had decreased nearly 15%.

Effectiveness. Effectiveness reflects the degree of success in attracting passengers to use the service that is provided, and is expressed as passengers per vehicle-mile. Only through careful responsive marketing, route planning and scheduling can transit effectiveness be increased.

As the industry went through the final phases of restructuring, effectiveness measured in terms of passengers per vehicle-mile declined approximately 2% from 1970 to 1975. From 1975 to 1980, however, as services began to mature and new management, planning and marketing skills were brought to bear along with increased governmental support at all levels, passengers per vehicle-mile rose substantially, by over 18%.

The evidence is clear - dramatic improvements in transit productivity and performance, measured in terms most meaningful to transit's basic mission, i.e. carrying people, began to occur coincidently with the provision of the broad-based program of federal transit assistance that is now set to expire on September 30, this year.

In assessing these very positive trends, UMTA staff has provided comments on the findings contained in APTA's recent productivity report, stating their belief that the report, "takes a thoughtful and reasonable approach to various aspects of transit industry internal performance."

There were several points made in UMTA's comments, however, which indicate the complexity of the issues involved.

It is important to note that UMTA not only agreed with the industry's method of analyzing efficiency and effectiveness, but they also, in their own recalculations found a substantial improvement in transit service effectiveness similar to the results reported in our work. UMTA continues to feel, however, that labor productivity is most appropriately expressed in terms of vehicle-miles per employee rather than passengers per employee.

It is our continuing belief that carrying people is the major objective of public transit. Consequently, we feel that measures used to gauge performance and productivity should directly reflect this objective. As a practical matter, it makes little sense to do otherwise. For example, if the extra mile of transit service is made available in an area which attracts no passengers, the increase in vehicle-miles per employee that might result cannot be said to be more productive, a conclusion that could come from the use of the vehicle-mile per employee measure.

John Kendrick, one of the most recognized authorities in measuring productivity , in fact, used a passenger-related definition as the best measure of output in the national transportation study. A recent report sponsored by UMTA recognized the validity of Kendrick's approach, indicating that Kendrick is "essentially correct," that from a nationwide point of view, the passengers carried must be viewed as the desired output of transportation activity. Sources from both of the above observations are contained in the previously referenced APTA report.

Overall, we believe that the positive productivity and performance trends highlighted above accurately reflect what has been taking place in the industry.

Effects of Inflation on Transit. Too frequently, critics of public transit have analyzed transit performance by comparing cost trends in the industry to changes in the Consumer Price Index (CPI) or other measures of general inflation such as the GNP deflator. This issue was raised by UMTA in its review of APTA's productivity report. Closer consideration, however, indicates that neither the CPI nor the GNP deflator provide an appropriate basis for comparison, since the components that make up these indices do not reflect the goods required to produce transit services. The CPI, for example, is made up of those goods and services typically utilized by the average household. Housing costs, for instance, make up nearly 44% of the index; food and beverages 19% and so on. The mix of goods and services used in providing transit services is substantially different.

To more accurately measure the relationship of inflation to the cost of providing transit services, APTA has developed a Transit Price Index (TPI), similar to specialized indices already developed for other industries. The TPI measures price changes in the mix of goods and services specifically used by transit systems. When the TPI is compared with either the CPI or GNP deflator, it is clear why transit costs have risen faster than these indices. Very simply, the costs of inputs needed to provide public transportation have historically risen 10% faster than the general rate of inflation, as measured by the CPI, and by an even a larger amount compared to the broader GNP deflator. More to the point, trends in transit cost-related ratios which appear to be negative when calculated and adjusted using the CPI or the GNP deflator, in fact, show favorable trends when the more accurate and appropriate TPI is used in the analysis.

For instance, real cost per vehicle-mile between 1975 and 1984 increased 4.3% and 13.4% when adjusted for inflation using the CPI and the GNP deflator, respectively. By comparison, cost per vehicle-mile over the same period actually decreased 1.4% when adjusted for inflation using the TPI.

Development of the TPI will be reported more fully in an upcoming APTA report. It will allow both more accurate interpretation of trends in transit service delivery as well as provide an important budget planning tool for transit managers.

Transit Managers as Effective Purchasers in the Market. In conjunction with development of the TPI, a separate analysis was under taken to determine whether transit managers are competing effectively in the market place for the goods and services they purchase. To make this assessment, a separate Market Efficiency Index was developed, (MEI). The MEI measures the general cost trends of various goods and services needed to provide public transit as they have prevailed in the free market. Growth in the TPI - the amount transit managers have actually paid - compared with growth in the MEI - the open-market price - indicates the extent to which transit managers have been prudent buyers in the market place.

The results are quite revealing. From 1980 to 1984, the TPI, or the change in the price actually paid for all items rose only 31.7% while the MEI, or the change in the open market price rose 35.1 %. With respect to labor, the TPI rose only 29.7% while the MEI rose 35.2% These findings, also to be presented and described in detail in an upcoming report, indicate that transit managers have been extremely successful in restraining the growth of both unit labor costs and the unit costs of other inputs at levels below the prevailing market rates.

For instance, annual average wage increases in the twenty-five largest transit systems compare very favorably with wage settlements in the private sector. The figures below highlight cumulative annual wage increases from 1976 to 1982:

Manufacturing	82.1%
Transportation and Public Utilities	81.4%
Non-Manufacturing (Excluding Construction)	77.0%
Major Collective Bargaining Agreements (All Industries)	77.0%
Transit (25 largest systems)	68.6%

In looking at average hourly earnings in other heavily unionized industries, the positive pattern in the transit industry is also evident. Summarized below are the cummulative average hourly increases in earnings for eleven heavily unionized industries, including transit, from 1975 to 1982:

Petroleum	94.7%
Paper	91.4%
Primary Metals	88.0%
Transportation-Equipment	86.5%
Mining	86.1%
Stone, Clay, Glass	84.1%
Transportation, Utilities	79.4%
Durable Goods	78.8%
Fabricated Metals	77.7%
TRANSIT	75.6%
Food	73.9%

In addition to responsible management of wages, transit managers and employees have made other highly significant strides, including increases in the use of part-time labor, increased contracting with the private sector for a range of services and functions and the elimination of automatic cost-of-living adjustments (COLA's). In fact, the percent of workers now covered by COLA's in the largest bargaining units throughout the transit industry has declined to one-third, a level lower than found in similar large bargaining units in private industry.

In summary, trends in the industry very clearly indicate that greatly improved productivity and performance can and, in fact, have been achieved as federal support for transit has grown and matured. The success of both the federal program and transit professionals is a critical factor to consider in the current deliberations over reauthorization of the federal transit program.

TRANSIT INVESTMENT NEEDS.

Although a review of past efforts and trends is an important step in determining the future course of the federal transit program, the most significant issue is establishing the level of investment needed to maintain current, basic levels of service and respond to needs for expanded service where they occur.

Transit Capital Investment Needs. In 1983 and 1984, APTA undertook an exhaustive capital needs survey to identify the levels of capital investment needed in each of the succeeding five years to maintain current services and to provide for expanded services where expansion was considered necessary.

The results of the survey indicated that $36.4 billion in capital investment was required over the five-year period. By mode and type of project, the needs were broken down as indicated in Table 1.

Table 1
FIVE YEAR TRANSIT CAPITAL NEEDS (Millions)

Project Type	Capital Needs (1984 Dollars)
Bus	$7,725
Facilities	3,929
Vehicles	3,796
Rail	$28,730
Modernization	15,088
Extensions	3,783
New Systems	9,859
Total	$36,455

The survey results, now two years old, continue to provide the best (and only) comprehensive assessment of transit capital investment needs available.(3) Overall, the annual capital investment requirement averages $7.3 billion per year, 1984-1988. In understanding the implications of these estimates for future years, it is important to note that actual appropriated federal funding for 1984, 1985 and 1986 represents less than 40% of the funds required to meet projected needs. Even assuming that federal assistance were to provide for 70% of needed capital investment (a level consistent with recent experience in the UMTA capital programs), appropriated federal funding would support only slightly more than half (56%) of the capital investment that was needed over the last three years.

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(3)UMTA has completed considerable work on a study estimating national rail modernization needs originally requested by Congress in 1979. As yet no results of this effort have been released. Indications are, however, that they do not vary markedly with estimates obtained in the APTA survey.

It should be clear that the backlog of transit capital needs has continued to grow significantly in recent years. Urgently needed repair, rehabilitation and replacement are not being accomplished at acceptable rates and new systems and services needed to meet growing demands in certain areas are not being advanced in a timely way. This leaves a growing backlog with added costs for future years, in addition to the routine cycle of annual capital investments that must and should be made.

Capital Needs: 1987-1991. In looking ahead to the implications of these estimates for the four-to-five year period to be covered by transit reauthorization legislation, it is possible to establish a range of capital needs based on varying assumptions. For instance, if the level of annual capital investment through 1991 is assumed to be roughly equivalent to that estimated in the prior survey, i.e. $7.3 billion per year, updated annual needs would total nearly $7.9 billion in 1986 dollars.

More conservative assumptions can be applied, i.e. greater reliance on rehabilitation rather than new equipment purchases, attention only to investments needed to maintain current services and meet existing demands, etc. In no case, however, do these and other similar conservative assumptions result in capital investment needs of less than $6 billion per year.

Sophisticated reassessment of the nation's transit capital needs is not necessary to establish the fact that even at current funding levels, federal capital assistance is far from adequate in addressing the projected capital investment needed over the next five years. The severe investment shortfall that is already occurring must be a prime consideration in reauthorization.

Operating Requirements. Over $10 billion is spent annually throughout the country to support public transportation service and operations. The provision of public transportation services remains highly labor-intensive with labor representing nearly 3/4 of total operating costs.

Despite the substantial strides in cost-control noted earlier, operating budgets remain tight and the pressure on state and local governments is severe. Today, state and local taxpayers provide over 50% of the funding needed to support public transit system operations. Riders provide an additional 40% through fares while the federal government provides less than

8% of operating revenues. Yet, the contribution of the federal partner remains critical. For medium and smaller systems this is particularly true, with federal operating support frequently accounting for 30% to 35% of total system revenues.

The continuation of the federal operating program at the levels established in the STAA is central to the retention of a balanced, broad-based and effective federal program. Pressure on state and local government budgets from recent declines in all types of federal assistance, as well as potential restrictions on local revenue-raising being discussed as part of tax reform initiatives, makes it virtually impossible to fully replace all federal support with state or local sources for any programs. This is certainly true with respect to support for public transit.

The problem has been made worse by persistent economic decline in particular industries and regions of the country. As recently as last month, the National Governor's Association reported that 17 states have experienced revenue shortfalls severe enough to prompt significant state-level budget reductions since the beginning of fiscal year 1986. Overall, state general fund balances for fiscal 1986 are projected to be less than half the amount considered prudent in financial circles.

Under the circumstances, it is vital to continue the current modest federal investment in transit operations which, in part, underwrites the maintenance of federally-supported capital equipment as well as the significant costs of compliance with federal requirements and regulations. As transit operating requirements continue to grow, the federal contribution will continue to decrease in percentage terms and in lost purchasing power. Nonetheless, maintaining the federal operating program over the next 5 years is a vital step.

MEETING TRANSIT NEEDS: THE FEDERAL PARTNERSHIP.

The federal transit program has evolved into an important and positive force for improving and expanding public transportation services and ensuring basic mobility in both urban and rural communities throughout the nation. The transit program is a well-balanced, effective partnership. State and local sources provide 42% of combined capital and operating support, fares account for 30.5% and federal assistance provides 27.5% of combined capital and operating needs.

This partnership has matured with the enactment of the Surface Transportation Assistance Act of 1982, which was developed through the diligent efforts of this Subcommittee. The STAA established new program structure and allocation mechanisms, introduced a dedicated source of funds, outlined a firm and growing financial commitment and set in place a new, less intrusive and more flexible management philosophy.

APTA and its members firmly supported passage of the STAA and believe that it represents a sound, effective mechanism through which to continue the federal partnership in transit.

In the past several days, we are aware that Senator D'Amato has developed a proposal which follows these same general directions and we are eager to assist the Senator, his co-sponsors and this Subcommittee in consideration and early action on this very important piece of legislation.

It is also our understanding that the House will proceed in much the same direction, providing a critical opportunity to establish strong bipartisan support for continuation of a meaningful and effective federal transit program.

Program Management. As we consider how best to meet our nation's transit and mobility needs, it is important to note that the STAA has been effectively in place only two years. In fact, updated directives and guidance on how various aspects of the program are to be handled are still being developed or have only been in place a short time. For instance, revised guidance on the submission of one-time standard assurances to reduce paperwork were only issued in February, 1985; procedures to guide the conduct of triennial reviews, a major step in shifting to a simpler, post-award program management approach, were only issued in May, 1985; new controversial policy and documentation requirements for private enterprise participation were issued and made effective within the past year, etc.

In reviewing the progress to date in implementing the STAA, we believe that the program structure is sound and that the distribution mechanisms are equitable, given adequate levels of funding. We believe that the basic program in existence today should be continued and that continued attention be paid to seeing that the overall program management philosophy and objectives of the STAA are met.

With respect to program management, we have noted increasing frustration and uncertainty on the part of UMTA grantees in their attempts to secure timely and consistent action, guidance and funding commitments from UMTA. Since the program certainly is not yet mature from an administrative and management standpoint, we believe that considerable additional attention should be paid to questions of program management.

APTA and its members have committed themselves to responsibly and thoroughly review with UMTA the many issues that remain to be solved in the program management area. We believe Congress should be a part of this reexamination, as well. It is our belief that the basic philosophy around which the STAA was crafted - one of less federal intrusion, greater local authority, less federal proscriptiveness and more streamlined delivery of federal resources - has not been realized.

Last year, in testimony presented before the Subcommittee on Surface Transportation of the House Committee on Public Works and Transportation, APTA addressed itself to similar program management concerns and proposed a number of specific steps for consideration in reauthorizing legislation. Included among the recommendations were suggestions to:

1) assure more timely apportionment of both current year funds and lapsed funds;

2) provide more timely and complete expressions of UMTA priorities for each year;

3) revise the Section 15 reporting requirement;

4) provide timely and more complete reports on the obligation status and release of UMTA funds;

5) make section 3 funds available more expeditiously during the year they are appropriated;

6) fully empower UMTA regional offices to take final action on program decisions; and,

7) improve the timeliness, content, consistency and interrelationship of UMTA policies, procedures, regulations and guidance.

Attached to our statement today is material excerpted from last year's testimony before the Congress, including a background paper highlighting the complexities of the UMTA process and issues related to the flow of UMTA funds.*

We believe that extension of the current program and increased joint attention to improved administration of the program is one of the most effective means by which to meet the federal commitment to public transportation.

Meeting Transit Needs Through Privatization and Competition. A great deal of attention has been paid recently to the notion of introducing greater private involvement in the provision of public transit services, or at least increasing the extent of competition in the delivery of transit services. Despite the changing rhetoric and the confusion that has arisen as the Administration has attempted to describe exactly what it means, there is little disagreement in the public transit community that better integration of the public and private sectors is a sound management practice.

APTA and the industry as a whole are extremely proud of the organizations, that today, are singled out as examples of how to make this integration happen in a practical and responsible way. In fact, the transit industry has, for years sought out and successfully developed means to more closely tie public and private interests together to serve public needs. The breadth of these activities is considerable and is often overlooked. With rare exception, they have been carried out not because of federal laws or mandates, but because it makes good business sense and good public policy. Past and continuing examples of public-private integration include:

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* Hearing held on May 16, 1985, publication available from the Subcommittee on Surface Transportation of the Committee on Public Works and Transportation, U.S. House

1) Increasing private business involvement in sponsoring and subsidizing employee passes, despite current tax laws which act as a strong disincentive;

2) Increasing private investment in major transit capital projects through joint development activities, benefit assessment districts, leasing arrangements, etc. again, despite the Administration's proposed changes in tax law that would dramatically reduce the private incentives to make such investments;

3) Continued increases in contracting the entire range of transit-related functions to private or other providers, including regular route services, special services for the elderly and disabled, maintenance functions and administrative services.

It should be noted, however, that privatization is not for everyone - a sentiment surprisingly echoed by an UMTA official only weeks ago in addressing a group of smaller public transit system operators. Secondly, privatization is not a substitute for continuation of a broad-based program of federal assistance. Public and private industry representatives alike agree on the basic framework under which public and private partnerships will evolve: private or competitively bid services should be viewed as a supplement to basic publicly-operated systems and services; and, the introduction of unbridled competition and unconstrained open entry may, in fact, damage rather than promote the emergence of thoughtful, efficient and cooperative relationships and stable services that are essential to both public and private sectors.

With this basic framework in mind, the public transit industry has attempted to focus on solving the practical, "how to" problems that must be addressed if further progress is to be made in integrating the public and private sectors. UMTA has expressed its concern in this area, as well, but as yet, little in the way of practical assistance or meaningful clarifications have been developed.

As an example, the intense promotion of the privatization/competition idea has left some urgent and important questions unaddressed. For instance:

1) If short-term economic advantage can be gained, what are the long-term impacts? How can effective private involvement or a competitive environment be sustained

over the long-term? How can stability in services and operations best be sustained over the long-term? Some of the experiences, notably in Westchester County, New York where 100 percent of the service has been contracted for ten years, have raised considerable questions as to the long-term effects of what is being so heavily promoted as a short-term advantage. More consideration needs to be given to identifying and assessing the long-term impacts and preparing transit providers, both public and private, to anticipate and address long-term issues;

2) To what extent are the myriad federal requirements that exist today to be shared, passed-on or waived when private or other providers enter into contractual relationships with public agencies using federal funds. Labor protection issues are a major practical problem, as are requirements related to civil rights, Buy America, elderly and disabled services, disadvantaged business involvement, procurement, auditing, reporting, etc. None of the practical questions related to these issues have yet been addressed satisfactorily;

3) What is the likely and realistic response of the private sector when the nature of public accountability and the public process is fully revealed, i.e. the often-times drawn-out process of public planning, programming, budgeting, public involvement, etc? In same cases, interest by private providers has disappeared when they have been confronted with specifications that are responsive fully to public policy; the scrutiny demanded with the use of public funds; and, the regulatory burdens that are involved. In many cases, only the largest and most sophisticated private enterprises exhibit legitimate or sustained interest.

These are just a few of the critical questions that need to be addressed. In doing so, the proper objective in the eyes of the industry is to control and reduce cost while maintaining the quality and quantity of service demanded by the public. Privatization and increased competition is only one of a series of useful tools in pursuing these ends.

We and our individual members have provided UMTA with extensive comments on how the public interest can best be served in the area of privatization. Copies of our comments on recently issued UMTA guidance are attached to our statement, expanding on the issues raised here.

Urban Mobility Block Grant. The only other reauthorizing proposal that has taken shape to date is the Urban Mobility Block Grant offered by the Administration.

The block grant is apparently intended to serve two objectives. First, it is designed to provide the vehicle for near total withdrawal of federal funding for transit. Second, it is designed to provide the vehicle for pursuing the "new federalism" agenda by which the current intergovernmental partnership, and particularly the federal role in both highways and transit would be substantially altered, if not effectively abandoned. Neither of these objectives, nor the proposal itself, are meaningful in addressing the basic question of how best to meet the nation's public transportation needs.

In specific terms, we have the following objections to the Administration's proposal:

1) Total restructuring of the program is not necessary or desirable to meet basic transit needs;

2) Funding levels are wholly inadequate. Only the $1.1 billion in annual revenues accruing to the Mass Transit Account of the Highway Trust Fund are available to be combined with reduced highway funds, without any assurance whatsoever that any funding would be available to support public transit services.

   Even if the full amount of funds from the Mass Transit Account were available for transit use under the block grant, the reduction from current levels would approach 70%.

3) Total reliance on a formula to distribute funds is ineffective and shortsighted. A discretionary program is essential to ensure that funds can be directed in a timely way to where they are needed most. The suggestion that "equity" or "fair share" concerns are best met through formula distribution is simply poor public policy. It is more appropriate and responsible to view equity in terms of the degree to which needs are being met, through the combination of formula and discretionary funding.

4) The suggestion that long-standing institutional arrangements and decision-making processes at the state and local level are inefficient and ineffective, and that local, state and federal relationships must be drastically restructured is unwarranted and far too extreme.

   Local, state and federal officials all share a desire for greater decision-making authority and increased flexibility at the local level. Dictating major upheavals in intergovernmental relationships via federal legislation, however, is simply unnecessary. Many of the mutual objectives related to greater flexibility could be met or substantial progress made through good faith efforts in program management and administrative areas within the current program, without the need for legislation.

5) Specific efforts to legislatively correct problems in administrative procedures or to legislate additional mandates that further interfere with local decision-making are unacceptable.

In the area of labor protection, the Administration proposes legislative repeal of Section 13(c) of the UMT Act. It is the industry's long-held view, however, that no change is needed in the statutory language of the Act. To the extent that problems have arisen in the implementation of the 13(c) provisions, they have developed from evolving administrative practice and should be resolved through revised administrative procedures. This approach has not yet been aggressively pursued within the Administration and no legislative effort should be considered until options for administrative relief or reform have been exhausted. We have, in fact, reiterated our desire to initiate serious efforts at administrative reform of 13(c) through the attached requests to Secretary Dole and Secretary Brock.

With respect to "privatization," the Administration proposes to require private sector membership on transit policy boards where not precluded by State or local law. In addition, the proposal would condition the award of federal funds on achieving a quota with respect to the amount of competitively bid contracting that is carried out annually. Both provisions represent a totally unwarranted intrusion into local decision-making.

In the first place, there already exist as a matter of long-standing federal law and regulation, extensive public involvement procedures and requirements. It is simply improper to require special treatment and a separate consultative mechanism designed exclusively to engage only private operators.

With respect to the quotas for competitive bidding and contracting, it has properly been the view of the Congress, restated in December, 1985, that the federal government remain neutral with respect to who provides the services. By directly or indirectly dictating either the outcome of the bidding process or the procedures to be used, the Administration's proposals stand in direct conflict with the principle of neutrality. Statutory quotas and mandates are not necessary or desirable to promote greater consideration of private sector involvement.

> Finally, the block grant proposal contains a flat prohibition on the provision of charter services by public agencies using federally-funded vehicles.
>
> It is ironic that while the Administration calls for greater entrepreneurial spirit and business-like practices in the public sector, they foreclose the options to do so in transit. It is equally ironic that greater reliance on non-federal revenues and user fees is expected, yet alternative revenue-raising options like charter service are to be prohibited or severely restricted.
>
> The same contradictions that are contained in the Administration's legislative proposal are, unfortunately, contained in a recently proposed UMTA regulation restricting charter bus activities under current law. One can only ask, why is "competition" the guiding principle in the privatization initiative but prohibited in the charter regulation? Why are "fully allocated costs" to be the central feature in comparing competitive bids under the privatization policy, but considered to be unworkable as an element of the current charter regulation? How can UMTA staff assume the role of reviewer and assimilator of massive amounts of documentation on private sector involvement but be unable, as stated in the proposed charter rule, to handle the current minimal flow of information required as part of the existing charter regulation.

These few examples have been raised only to highlight the many questionable features that are contained in the block grant proposal. It is our view that the proposal itself does not warrant consideration, and that reauthorization of the federal transit program should be based on: 1) a reaffirmation of the principles and structure of the STAA; and 2) efforts to ensure that the program management and related objectives of the STAA are fully realized.

Conclusion

In summary, we believe the structure of the current program is sound, the distribution mechanisms are fair and the institutional framework and process embodied in the current Act are appropriate. The critical issues are those dealing with funding levels and program management.

We are highly cognizant of the deficit problem and its significance and have every confidence that Congress and the American people will, together, find an equitable solution. We are equally confident, however, that the solution does not lie in the abandonment of urgently needed federal leadership and investment in public transportation and our nation's other infrastructure systems.

In the long term, there could be a considerable advantage in moving the current federal transit program out of the general fund and entirely on to a dedicated source of funding. Such a move could promote much-needed stability across the country in efforts to provide basic transit services and improve overall mobility. Until such a step can be reasonably contemplated, we urge members of the Subcommittee to act as expeditiously as possible to reaffirm the long-standing federal commitment to public transportation and enact reauthorization legislation to extend the current program.

We truly stand at the crossroads, but the way seems clear. The transit industry stands ready to assist the Subcommittee in any way possible to see that the commitment to continued federal investment in transit that was put in place 20 years ago and reaffirmed in 1982 is continued through the end of the decade. One of your esteemed colleagues, Senator Mark Andrews, Chairman of the Subcommittee on Transportation of the Senate Committee on Appropriations perhaps best summed up the critical choice before us. In addressing public transit leaders from around the nation, Chairman Andrews said, "it is vitally important for Americans today to differentiate between spending and investment programs because without investment programs, it is impossible to prevent a tarnished tomorrow."

Public transit continues to be one of those critical investments.

ATTACHMENT A

In response to your question concerning overhead costs of the intercity bus and transit industries, we have carefully examined the testimony of the witness who raised the issue and found that there are substantial differences in the way the two industries define their costs. When definitions are standardized, you find that the overhead costs of the two industries are nearly identical.

Intercity bus accounts conform with Interstate Commerce Commission Accounts for Common and Contract Motor Carries of Passengers, 49 CFR 1206. Transit bus accounts are in accordance with the Urban Mass Transportation Administration's National Urban Mass Transportation Statistics, Section 15 of the Urban Mass Transportation Act of 1964, as amended.

The two accounting systems have substantial differences. The ICC system is a single entry account in which function classes (cost centers) and object classes (line items) are mixed. The Section 15 system is a double entry system in which each function class contains that portion of an object class that is expended for the particular function.

For example, the object class of tax expense (including Social Security expense) in the Section 15 accounting system is distributed among function classes for: vehicle operations, vehicle maintenance, non-vehicle maintenance and general administration. In the ICC system tax expense is treated as a separate function and not distributed as in Section 15.

Since the ICC system has object classes treated as function classes and also has an additional function class compared to the Section 15 system, the percentage of expense in any function class would be smaller in the ICC system contrasted to the Section 15 system.

Complete aggregate, summary statistics for all intercity bus operators are not available. The American Bus Association, however, published a listing of major ICC account titles and amounts in 1981 for the 1980 reporting year. The following table reports these amounts for intercity bus operators in 1980 and accounts for transit bus operators from the 1980 Section 15 Annual Report.

INTERSTATE COMMERCE COMMISSION ACCOUNTS - 1980

Subtotal Line Item	Amount (millions)	Percent
Equipment Maintenance and Garage	170.4	13.0
Transportation	507.6	38.7
Station	237.3	18.1
Traffic, Solicitation, and Advertising	45.4	3.5
Insurance and Safety	47.5	3.6
Administrative and General	160.6	12.2
Operating Taxes and Licenses	76.4	5.8
Depreciation and Amortization	48.6	3.7
Operating Rents, Net	19.0	1.4
TOTAL	1,312.8	100.0

SECTION 15 ACCOUNTS - 1980 (a)

Function Class	Amount (millions)	Percent
Vehicle Operations	1,856.4	60.3
Vehicle Maintenance	640.4	20.8
Non-Vehicle Maintenance	95.4	3.1
General Administration	486.4	15.8
TOTAL	3,078.6	100.0

(a) motor bus only

It is more simple to convert ICC accounts to an estimated comparison with Section 15 accounts than the reverse because the Section 15 Annual Report does not report data for depreciation and amortization or operating rents.

In addition to the accounts included in the ICC account called Administrative and General, the Section 15 Function Class called General Administration also includes the accounts the ICC system lists under Traffic, Solicitation and Advertising; Insurance and Safety, and a portion of Operating Taxes and Licenses.

	INCLUDED IN:	
Account Class	ICC Administration and General	Section 15 General Administration
Administration Wages, Salaries, Services, and Supplies	yes	yes
Legal, Accounting, etc.	yes	yes
Traffic, Solicitation, Advertising, Planning, etc.	no	yes
Insurance and Safety	no	yes
Taxes, Including Social Security	no	part
Health and Welfare Fringe Benefits	yes	part

The following table makes a generalized comparison of re-sorted ICC accounts to the Section 15 account, " General Administration."

	Dollars in Millions	
	ICC	Section 15
Administrative and General	$ 160.6	$ 486.4
Deduction of 83.3% of Health and Welfare Benefits	(74.1)	not in above
Proration of 16.7% of , Social Security	7.2	included in above
Insurance and Safety	47.5	included in above
Traffic, Solicitation and Advertising	45.4	included in above
TOTAL	$ 186.6	$ 486.4
Operating Expense excluding Depreciation, Amortization and Net Rents	$ 1,245.2	$ 3,078.6
Administrative and General as Percent of Operating Expense	15.0%	15.8%

Thus when recast as closely as possible in matching accounts, the Administrative and General Expenses of intercity bu carriers are 15.0% of operating expense whereas the General Administration Expense of transit bus operations is 15.8%.

Sources:

American Bus Association, Bus Facts, 1981 Edition, pages 13 to 17, Expense data for Class I Interstate Carriers.

Urban Mass Transportation Administration, National Urban Mass Transportation Statistics, Second Annual Report, Section 15 Reporting System, June 1982, page 1-24.

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APTA

Jack R. Gilstrap
Executive Vice President

ATTACHMENT B

TO: ALL U.S. APTA MEMBERS

FROM: EXECUTIVE VICE PRESIDENT

DATE: JULY 18, 1984

SUBJECT: APTA COMMENTS ON PROPOSED UMTA URBAN MASS TRANSPORTATION MAJOR CAPITAL INVESTMENT POLICY

On May 18, 1984 UMTA published a notice proposing significant changes in its Major Capital Investment Policy to be effective immediately. The notice proposed specific new procedu for major project evaluation, rating and ranking. The enclosed comments were submitted by APTA to the docket file on July 17, 1

The comments were developed, in large part, based on discussions among members at two special meetings, one held in Baltimore on June 11 and another held in Washington on July 10, 1984. The comments also reflect issues raised by APTA members in individual comments to the UMTA docket.

The key points of the response include:

1. agreement by the industry that a more rational and consistently applied evaluation process is necessary;
2. concern that the UMTA proposal is not broad enough in scope, is too dependent on quantitative factors and is too restrictive in its attempt to establish eligibility for federal assistance;
3. objections to the use of the "overmatch" factor and to proposed restrictions and prohibitions on the use of both Section 3 and other UMTA funds;
4. a commitment to engage in a more thorough consultative effort with UMTA to explore optional approaches to improving the project evaluation and selection process.

As indicated in the May 18, 1984 Federal Register notice, UMTA anticipates reissuing of the policy for additional review at some later date. Members should, therefore, continue to consider carefully the issues raised in both the UMTA policy statement and the enclosed comments and contact APTA staff with additional questions and comments.

Jack R. Gilstrap

Enclosure

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APTA

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xecutive Vice President

ATTACHMENT C

July 17, 1984

Docket Clerk
Docket 84-B
Urban Mass Transportation Administration
Room 9228
400 Seventh Street, S.W.
Washington, DC 20590

COMMENTS OF THE AMERICAN PUBLIC TRANSIT ASSOCIATION
ON THE NOTICE OF POLICY ON
URBAN MASS TRANSPORTATION MAJOR CAPITAL INVESTMENTS

The American Public Transit Association (APTA) is the international organization representing the public transit industry. APTA members include over 300 American bus and rail transit systems which carry over ninety-five percent of those persons using public transit in the United States today. Additionally, APTA has over 430 other members who serve the transit industry including consultants, manufacturers, suppliers, government agencies and academic institutions.

Among APTA's transit system members are virtually all the agencies which either currently operate rail systems or which have major transit capital investments in some stage of planning or consideration. In addition, APTA members include a considerable number of major engineering and consulting firms with experience in all phases of major capital project planning, evaluation, design and construction.

In its role as representative of the transit industry, APTA is pleased to provide comments on the very significant Urban Mass Transportation Major Capital Investment Policy published on May 18, 1984. The comments are presented in four major areas: Support for an Improved Evaluation Process; Summary of Major Concerns; Specific Comments on the Policy; and Optional Frameworks for Consideration.

INDUSTRY SUPPORT FOR AN IMPROVED EVALUATION PROCESS

As a preface to our detailed comments, we would like to emphasize that the transit industry has consistently been on record in support of steps which will strengthen the process of evaluating and selecting major transit capital projects for implementation. As far back as the Airlie House and Hunt Valley conferences preceeding issuance of the first UMTA policy in 1976, and as recently as February 9, 1984, in testimony before the Subcommittee on Surface Transportation of the House Committee on Public Works and Transportation, the industry has clearly indicated its interest in and support for a more rational and consistently applied process for making federal commitments to major transit capital investments. This commitment to an improved evaluation process has been strongly reconfirmed in recent weeks as industry representatives have met to discuss the proposed policy.

In order to improve the current process, however, it is important to establish the principles on which a new or revised major capital investment policy should be based. We believe that the procedure for evaluating and selecting major transit capital investments under the provisions of the Surface Transportation Assistance Act of 1982 should reflect the following principles:

1. The evaluation process should incorporate directly and fully all the program goals and objectives established by Congress, including those of a qualitative nature as well as those of a quantitative nature;
2. The evaluation process must balance the achievement of federal program goals with the commitment to reinforcing local decision-making responsibility and authority;
3. If detailed, quantitative evaluation procedures are to be incorporated, their application should exhibit a high degree of consistency, stability and validity;
4. The evaluation process should enhance the timeliness and predictability of major capital investment decisions;
5. The evaluation process should retain the flexibility and integrity of the overall transit program provided in the STAA.

With the passage of the STAA, along with the maturation of the UMTA alternatives analysis process in recent years, the increasing level of interest/in new major transit capital investments. has made it necessary to review and make changes in the project evaluation process at this time. In so doing, it must be recognized that there is a wide range of evaluative mechanisms and frameworks in which factors can be arrayed and considered, with each approach providing significantly different advantages and disadvantages and serving different objectives.

The May 18 policy statement and supporting material describes one possible way to proceed, using a relatively narrow range of factors, precisely calculated indices and a closely controlled sequence of tests and decisions. There are, however, other alternative approaches which we believe could offer significant advantages over the current proposal, and which should be the basis for more in depth discussion before a final policy and process is put in place.

SUMMARY OF MAJOR CONCERNS

Before proceeding into more detailed comments on specific aspects of the proposed policy, it is important to note several overriding concerns which are broadly shared throughout the industry. The major substantive concerns lie in three basic areas and a fourth has to do with the process through which the policy has been developed.

First, the approach and methodology being proposed in the new policy is extremely narrow in its focus and appears designed to drastically restrict and reduce the amount of new system planning and development that will be allowed to proceed across the country. We believe that the process relies too heavily on quantative measures only, and uses a much too limited set of factors both in the application of thresholds and in the cost-effectiveness analysis. The result is to force federal decisions, which, in effect, are premature judgements on project eligibility, rather than to provide comprehensive observations on relative project merit. We strongly question whether such a narrow and highly quantitative approach is appropriate at each step in the process. We also question whether such an approach should, in effect, be used to declare projects ineligible to proceed through each subsequent stage in the overall process.

The second major concern is that the quantitative procedure proposed to measure cost-effectiveness is highly questionable. In the proposed equations and indices, the specification of variables could be improved and the implied equal weights given to all variables should be questioned. More seriously, however, the equations are highly unstable in that the indices are subject to enormous variation based on very small changes in the individual factors and data. This volatility alone should be justification for rejection of the specific cost-effectiveness equations being proposed, if not rejection of the entire arithmetic concept of a ratio/fraction type of index.

Third, we strongly disagree on the way in which "overmatch" is used in the analysis of cost-effectiveness. The absolute amount of non-federal support is simply not a measure of transportation goal achievement and does not measure the performance or impact of a capital project. The use of overmatch in the evaluation of a project introduces a host of perverse effects at the local and federal level and may contradict the intent of statutory language on project eligibility and matching requirements. Quantitative cost-effectiveness evaluation procedures, if they are retained, should be based only on a total cost concept and the overmatch factor removed entirely from the calculation.

Finally, with respect to the policy development process, industry representatives have expressed concern over the general process and timetable by which the proposed policy has been developed and presented. Establishment of a more rational basis for making major capital investment decisions within the UMTA program is an issue of considerable consequence, not only to transit industry representatives but to local citizens and the local business and investment community, to state and local public officials and to members of Congress.

Unfortunately, development of the proposed policy was undertaken without meaningful consultation with either the industry, local officials or Congress. In contrast, development of the initial UMTA policy on major capital investments in 1976 was assisted by an extensive, twenty-month consultative process, as specifically noted in the September 22, 1976 Federal Register. Although the roots of the proposed policy lie to some extent in the preceeding policy statements, the new policy and evaluation process contains a number of significant variations from past policy and may not be wholly consistent with statutory language or legislative direction.

We believe that these variations are significant enough that a credible and broadly supportable major investment policy can only be developed through a more extensive consultative process, similar to that undertaken in 1975 and 1976. Furthermore, there is ample time to conduct such a process.

As a final note on the policy development and comment process, our review, and presumably all comments being submitted, will have been hindered by the unavailability of a major piece of background material which describes the proposed project ranking process in detail. Although the background paper entitled, "A Detailed

Description of UMTA's System for Rating Proposed Major Capital Investments," was referenced in the May policy statement, it has been unavailable until the second week in July, more than 50 days into the 60 day comment period. In addition to its unavailability, the paper contains references which in some cases appear to contradict the published policy statement and in other cases exaggerate already problematic aspects of the proposed policy and evaluation process. Equally disturbing is the statement in the document that, while UMTA is willing to make some modifications in the details of the rating system, it intends to make no changes in the overall structure. This declaration diminishes the value and usefulness of a formal review and comment process.

With these major concerns as background, the remainder of our comments expand on these and other more detailed aspects of the proposed policy.

SPECIFIC COMMENTS ON THE POLICY

The specific comments that follow are organized into four broad areas: General Features of the Policy; the Overall Evaluation and Ranking Process; Cost-Effectiveness Analysis and Indices; and, Program Management and Administration.

General Features of the Policy

As indicated earlier, the policy and the evaluation process are extremely narrow in terms of the measures used and how rigidly they are applied. We do not feel that the policy adequately reflects or incorporates the full range of goals and purposes that have been established for the transit program and which are expressed in statutory language. Section 2 of the UMT Act expressly speaks of the impact of transit on local and regional development, specifically in terms of housing and urban renewal; it notes the relationship between transit and the achievement of goals in other federal programs; it speaks to broad factors of welfare and vitality of our urban areas; it specifically notes urban development objectives and the importance of local determination of needs.

Section 8 of the Act, which supports major capital investment planning and analysis, specifically mentions the consideration that must be given to land use plans, development objectives, social, economic and environmental objectives, energy goals and the effects on future development. Language in Section 3 further emphasizes urban economic development as well as broad economic, social and environmental impacts and effects.

The transit industry and local officials strongly endorse these goals and statements of purpose, and view them as a broad framework within which transit alternatives should be explored; a framework established at the federal level and defining federal interest; and, a framework which requires a broad approach to project evaluation, fully incorporating both qualitative as well as quantitative factors.

In contrast, the proposed policy statement attempts to substantially redefine and narrow the federal interest, federal goals and purpose of the UMTA program through its limited and heavily quantitative approach. The statutory language in the UMT Act clearly indicates that public transit should not be viewed solely as an end in itself, but the proposed policy is strongly oriented toward this view.

A second general objection is the degree to which the policy itself, irrespective of overall program goals, introduces major changes from past policy. There are seven basic and fundamental departures that are introduced into the evaluation and selection process:

1. Past policy and process were open-ended; the current proposal is to create a sequence of closed decision loops;
2. The policy drastically changes the definition of cost-effectiveness contained in the 1976 policy which stated that cost-effectiveness, ". . .is measured by the degree to which an alternative meets the locality's transportation needs, promotes its social, economic, environmental and urban development goals, and supports national aims and objectives.";
3. The current proposal mandates the application of specific criteria through a precise mathematical formula with little or no attention to qualitative factors;
4. The new start program is expanded to specifically include busway projects within the concept of major capital investments with no mention of the relationship between the transit program and the highway program in their implementation. Also, inappropriate and unclear reference is made to the inclusion of specific types of rail modernization projects (e.g., electrification of existing services);
5. A totally new criterion, overmatch, is introduced, and is used to effect decisions of project eligibility at several stages in the overall process;
6. Specific quantitative thresholds are used at each stage of the process;
7. A new series of conditions or prohibitions on the use of Section 3 and other UMTA funds is introduced as a component of the evaluation and selection process.

These changes constitute a major reorientation of the program and should be more carefully considered and discussed before they are adopted.

A third general question is whether or not the proposed policy accurately reflects the intent of Congress. The policy statement acknowledges instructions in the 1984 DOT Appropriations Act and reflects recommendations contained in pending House authorizing legislation. However, final resolution in Congress on the issue of major capital investment criteria has not yet been reached. Consequently, the proposed policy is premature.

Overall Evaluation and Ranking Process

Although the proposed policy retains the current five-step approach to project development--system planning, alternatives analysis, preliminary engineering, design and construction--several features of the new project evaluation and ranking process are of major concern.

First, the project evaluation and ranking process appears to be designed with the overriding objective of reducing both federal obligations to individual projects, and reducing the overall level of demand for major transit capital investments. In view of the renewed commitment to new transit system development that was retained in the STAA after considerable debate, the strong emphasis given to the objective of reducing the federal role in major capital projects and short-circuiting interest in major transit investments is highly inappropriate.

Clearly, Section 3 resources, even if increased to the levels that actually are available, are inadequate to carry out all projects that are now under consideration. As a result, difficult judgements, based on more rigorous tests, will always be required at the point when annual commitments to specific projects must be made. Neither of these factors, however, require that otherwise worthy projects, which may not be funded immediately, be totally removed from any further consideration. Broad oversight of the planning and analysis process and responsible management of the capital resource and project pipeline can be viewed as two fundamentally different responsibilities that do not necessarily require the same narrow and restrictive approach proposed in the policy.

A second major concern is that the thresholds themselves are questionable from a variety of perspectives. First, three of the five thresholds being proposed were undefined in the published policy. Specific descriptions of all the threshold factors were provided only in the descriptive document that was made available within the last week. Even in the descriptive document, however, the derivation of the threshold values which are to be used to judge if the cost of a project is "excessive" ($10 per rider for a project to be allowed into Alternatives Analysis and $6 per rider for a project to be allowed into Preliminary Engineering) are not explained, nor is the relevance of these specific thresholds made clear. Without some additional discussion of these factors, and how they are estimated, the cost per rider threshold values can only be considered arbitrary and of questionable validity.

It is also apparent that the use of detailed cost-effectiveness factors and equations is required to conduct several of the threshold tests. For instance, the detailed description document indicates both of the "excessive cost" thresholds (for alternatives analysis and preliminary engineering) are, in fact, defined as cost per rider, and require application of the cost-effectiveness equations or some similar mathematical approach to produce the necessary figures for comparison purposes.

This seemingly contradicts the published policy statement which indicates that the two cost-effectiveness equations and indices are to be applied only *after* preliminary engineering to categorize projects that will be seeking funds for final design and construction.

Similarly, another threshold test for preliminary engineering requires that an alternative lie on the "cost-effectiveness frontier," i.e., be the single most cost-effective alternative, or be penalized. The concept of a "cost-effectiveness frontier" is neither presented nor described in the policy statement. Calculations to make a determination about what constitutes a "frontier" (and, therefore, what penalties to impose), again require application of the cost-effectiveness equations in advance of any decision to allow projects to proceed into preliminary engineering.

The definition and application of the "frontier" concept also requires that *all* other alternatives be analyzed and compared. This appears to contradict the published policy statement which indicates that the "preferred alternative" (determined in alternatives analysis) will be evaluated in subsequent steps by comparing its performance relative to a TSM option, and the similar performance of other projects.

In view of the clarifications contained in the recently issued detailed descriptive document, it appears that nearly all the "threshold" judgements and, therefore, the entire planning, analysis, and evaluation process is highly dependent on the very narrowly constructed and arithmetically precise cost-effectiveness indices and equations. As a result the application of the proposed thresholds and cost-effectiveness indices, *as a practical matter*, result in projects being declared ineligible to proceed through subsequent stages in the process. As a consequence, the value of locally preferred alternatives may be greatly diminished or dismissed at a point before preliminary engineering, or before any major federal commitment is either required or requested. We view this as a highly inappropriate and restrictive way to manage the overall process.

We believe that project eligibility is clearly defined in statutory terms, as a function of broad program goals and objectives. The narrow criteria contained in the thresholds and indices should not be used to make judgements about "eligibility" in a way that forces projects to be dismissed totally from further consideration.

A comment on one additional threshold factor is also warranted. The threshold requiring "15,000 existing daily transit trips" in a corridor in order to engage in Alternatives Analysis is also questionable. Major capital investments are generally justifiable in high density corridors. The level of "existing daily transit trips," however, is a much too limited measure of density. A major capital investment should be justified on the basis of the number of riders it will or may attract. Therefore, any such threshold should include consideration of both existing and future population, employment and land use density, as well as total travel in the corridor, in addition to current transit trip-making.

A third issue of considerable consequence in the overall evaluation and ranking process is whether or not new systems and extensions to existing systems ought to be evaluated through an identical process, using identical factors; or, whether the process, as proposed, is biased toward either extensions or new systems.

In terms of the proposed cost-effectiveness calculations, the analysis might favor extensions, because of cost factors, i.e., where costs may be lower because an entire fleet of new vehicles is not required, where no additional maintenance facilities need be built, where rights-of-way might already be owned or committed, etc.

Other requirements of the policy may contradict results of the cost-effectiveness evaluation and favor new system development. The new policy continues past requirements restricting eligible projects to "minimum operable segments," and limiting analyses to a "single corridor" only. With continuation of these policies, it is possible that highly cost-effective extension projects would not be eligible for funding consideration.

Resolution of how new systems and extensions are to be treated in a balanced way, that reflects local needs, is essential before the policy or its procedures are adopted. Since the single corridor restriction was largely prompted by the limited amount of Section 8 funds, and since Section 9 funds will now be the primary funding mechanism for alternatives analysis, consideration should be given to dropping this requirement as well as revising the operable segment language.

Finally, the continued mandatory use of a TSM alternative as the basis for cost-effectiveness analysis also deserves careful reconsideration. Recent experience has shown that considerable disagreement typically exists over what should constitute the base TSM option as well as the fact that considerable time and money is spent defining and analyzing potentially unrealistic TSM options. More specifically:

1. There have been instances when the TSM alternative required by UMTA has been considered unreasonable and unrealistic with respect to its assumptions about the capacity of existing systems, the relationship to already committed projects or its likelihood of being implemented or financed;

2. TSM options typically do not include consideration of the large institutional or political costs (or the impracticality) of instituting otherwise positive regulatory schemes (parking prohibitions, dedication or preemption of streets for transit, parking pricing measures, etc.);

3. There is concern that the total costs of TSM options are often overlooked, and that if their total costs and benefits were accurately compared to existing conditions, the results would be sufficient to challenge their use as a base for analysis.

All of these issues complicate and call into question basic features of the overall evaluation and ranking process that is being proposed. If the planning and evaluation process is to be restructured, these problems should be more carefully reviewed, reconsidered and resolved.

Cost-Effectiveness Analysis and Indices

Earlier comments have noted the extremely narrow basis for evaluation. It is also clear that the proposed cost-effectiveness analysis procedure itself is the dominant feature of the entire process, influencing both threshold decisions in the planning process and major funding decisions. Because of the influence of the cost-effectiveness equations and indices, they have been given close critical attention by the industry. As a result, major problems and questions have been raised with respect to the specification of variables, the mathematical form of the equations, the volatility of the indices and variables, and extent to which the proposed approach is contrasted with similar procedures in other federal programs.

Senator **Hecht**. Could we just let you sit here for about 4 or 5 minutes? That is my vote and I will be right back and in the meantime any of you that want to add something to it, when I come back I'll give you the chance before I ask the questions.

[Recess.]

Senator **Hecht**. The subommittee will return to order.

I thank you for your indulgence, but we have been elected by our people to vote and we'd better be over there voting.

Mr. Frank, thank you for your testimony. Before I start with my questions, Ms. Shaffer, did you have anything to say?

Ms. **Shaffer**. Not to add at this point, no, sir. Thank you.

Senator **Hecht**. You had so much to say to me the night of the big function here, what's happened?

Ms. **Shaffer**. Well, there is one thing that particularly concerns me about the approach that the administration has taken.

Senator **Hecht**. That's what you're here for, to tell us.

Ms. **Shaffer**. In defining who rides mass transit, the statement is made in a recent letter to Mr. Gilstrap from the Executive Office of the President that most mass transit passengers can afford to pay their ways.

AFFORDABILITY OF THE WORKING POOR

We have in Huntington, WV, as you may recall, a 22-bus system. In a city of about 60,000 people, our ridership is predominantly the working poor getting to work because of the bus system. It makes it possible to hold a job. They can't afford to park. They can't afford to own cars, at least they can't afford to own a second car. They also can't afford to pay their way. Our basic bus fare is 60 cents and the administration asserts that those people can afford $1.80 or $2.10 to ride a bus. If we raise our fare to $1.80 or $2.10, there simply will be those marginal working poor on welfare.

As it is, the bus system today creates a way for them to hold a job and get to work. People ride a bus for two reasons: they either ride that bus to earn money or they ride that bus to spend money. That's business. And it seems that the greatest concern we have in this community today is the business in our communities, the businesses in our small cities and our large cities. Transit does mean business and I think the Federal interest in that role is and has been expressed as being a good and great one and I think that is the argument for the Federal role in mass transit.

We want to see the economy in this country grow and be healthy and we want our people to enjoy the benefits. Without a complete transportation system, they won't. And I think the working poor have a right to jobs and I think the employers need them. Thank you.

Senator **Hecht**. You do a better job of expressing yourself than a lot of people in prepared statements. That was very well said.

Ms. **Shaffer**. Thank you.

Senator **Hecht**. Mr. Premo or Mr. Turney, do you have anything to say?

Mr. **Turney**. Not at this time, Senator.

Senator **Hecht**. What are your thoughts on selection criteria for discretionary grants?

Mr. **Premo**. Well, there is a difference, Mr. Chairman, between criteria to be used for funding meritorious bus projects and for those which might be defined as new start projects.

We have been in discussion with the staff of the Urban Mass Transportation Administration for some time on new start criteria and, frankly, we are not in full agreement. Because of the complexity of the issue and the importance that individual factors—ridership estimates, economic forecasts out over a 15-year period—play in the quantified criteria which UMTA is using, slight changes in those criteria can have massive impacts at the other end in which projects get considered.

Frankly, we need to continue to work with UMTA. Ultimately the decision is theirs as the funding agency. And we've been trying over the past years with UMTA to come up with something that reflects the variables ranging from these technical issues of forecasts of growth to the critical matter of how much local money is put in, because that's an important factor in any selection process as well.

So we are working with UMTA and feel that we are making some real progress. We think that the selection criteria used by UMTA in bus projects has been reasonable and fair and I think that for the most part the industry feels comfortable with that portion of the section 3 decisionmaking process.

Senator **Hecht**. Does anyone else have any comment on that?

Mr. **Frank**. As long as we stay involved, which we can very nicely, with joint development, on the discretionary basis it does give us the opportunity to build in privatization on a broader level.

FORMULA GRANT PROGRAM

Senator **Hecht**. An earlier witness has suggested that some of the gas tax funds be distributed by formula. What are your thoughts on this proposal?

Mr. **Premo**. I believe this is tied in with the discussion, Mr. Chairman, we previously heard on linkage between the formula grant program and the discretionary program. Obviously, the issue is a tough one. I know that Senator D'Amato has given consideration to setting aside up to $200 million in the gas tax funds for bus projects which it is argued may be cut more because of the formula cut that affects all the cities.

We want to work with you, with this committee, in writing reauthorizing legislation to deal with that tough matter because it affects us all.

Frankly, that issue is going to be able to be handled far more comfortably and easily among the diverse interests in this association and the cities and States which it represents if the Congressional Budget Office report information is incorporated within the bill.

Specifically, $1.9 billion is the funding level that could be supported through the highway trust fund, rather than the $1.1 billion which is now authorized and appropriated. It's gas tax money as a result of the penny increase for transit that is being collected, and all that the transit industry is saying is, since it's being collected let's make it available. And I have no doubt that we could work out an arrangement on linkage based on the full expenditure of the moneys which are in fact now being collected at the pump around this country.

We think we could work something out, but it is tied, in summary, to full funding of the gas tax penny for transit purposes.

Senator HECHT. Many of our witnesses have spoken of the partnership of Federal, State, and local efforts in providing for transit needs. Mr. Sherlock, of ABA, points out that the congressional intent of the original act was to preserve and enhance private sector involvement. I think that one of our partners has been short changed in the deal.

How can we influence greater participation of the private sector?

Mr. TURNEY. Well, I would like to respond in two ways if I may. Of course, I'm speaking strictly from a manufacturing supply side, not as a bus operator.

Speaking from a manufacturing supply side, the cost of our product to the transit authorities is down 20 percent today from what it was 2 years ago. It's down because of the very highly competitive environment, the bidding process that the transit authorities put on. They are very good stewards and very strong negotiators when it comes to the products that they buy.

As to how these same people can be held inefficient in the rest of their business is completely inconceivable. I just don't understand it, sir.

Second, as to how the private side can be better invited, if you will, to participate, of all the comments that I have heard so far to that point there's been one very vital point or comment that has not been made, and that's the opportunity to make a profit. I think any set of decisions that can be moved to the local level—and I might say that's not going to happen because of some federally set guidelines—any decisions that can be moved to the local level which will open up to the profit-making process, if you will, of the private business will automatically increase the chance for private industry participation.

Every instance in my own Dallas community that I can think of where private operators are providing a service did not come into being because of any Federal program. It came into being because of an opportunity to make a profit.

Mr. FRANK. Senator, let me just reinforce Mr. Turney's comment on at the local level. That's so essential because there are so many different problems. There are different problems in different areas with different concerns.

NEED FOR A COOPERATIVE EFFORT

We believe very much in privatization. I personally came out of the private industry. This is a second career. I had my own business for many years, so I am privatized from the word go. I believe in it completely. But it's got to be a cooperative effort. It can't be a quota. It's got to be established on a supplemental basis and it must be involved on the local level so that we can implement this in the appropriate way.

It's no easy quick-fix method. We're talking long term. As an example, I can turn our system around in 30 days and make it profitable. Transportation is my business, has been for a lifetime. However, when I do that, I would be taking out the public service portion of this industry and the public service portion is what urban mass transportation is all about.

Senator HECHT. I have a note here that there is only 5 percent private involvement in the program. How can you address that?

Mr. FRANK. I don't accept that.

Mr. PREMO. Mr. Chairman, if I could speak to that, I think that the definition of privatization that's been debated over the past several months would benefit greatly through a broadening of our thinking. If our focus is exclusively on bus route A, B, or C out of an alphabet of bus operations, then we can debate only a part of what should be considered.

I believe that privatization can benefit greatly by thinking about the full range of activities that a public transportation agency might be engaged in and how much of it—not just bus routes—is the responsibility of the public sector and how much is done in partnership with the private sector.

We shall be next week submitting to UMTA an analysis of this from the New Jersey Transit Corp., and if I could just engage you for a minute I'll give you an example of what I mean.

During the first 6 months of the current fiscal year we spent $280 million at New Jersey Transit, over one-quarter of a billion dollars. How much of that went in partnership to the private sector of our operating budget? $125,488,000. We did it in a host of different ways through the purchase of fuels and supplies, through some contracting out of certain maintenance activities, through the repair of escalators and elevators, through the cleaning of uniforms—things that we could have done internally for the most part but we chose not to because we carefully looked at the approach and we said it makes more sense to do certain things through contracting out, including contracting out to businesses like Dave's and other that can make a profit and which in fact employ people. It isn't as if this is a black hole. The money we spent within New Jersey Transit was money that people earned, employees of our own corporation, who in turn are paying taxes and fueling the economic rebound in our State and in other places in the country.

Having said that, about 35 percent of our fleet in New Jersey is operated by private carriers and we have provided since 1980, $120,627,000 to private carriers. Nearly all the buses in New Jersey operated in regular route service by private carriers have been provided through New Jersey Transit as part of the program.

But we have worked an arrangement with private carriers in our State where some of these carriers are not on the operating subsidy program. We've helped them with capital. They have avoided the need to raise fares to cover their capital costs and thus they are not on the operating subsidy program.

If we broaden our definition and consider those arrange- ments as well as merely the subletting of bus routes A, B and C, I think we'll get a better picture and I think you will be, as well as other members of this committee and Members of this Congress, encouraged by the progress that is occurring in working in partnership with the private sector.

Specification of Variables. We believe that the overall policy is flawed because of its over-reliance on the cost-effectiveness equations and indices. We question the usefulness and accuracy of the cost-effectiveness procedure due to the limited number of variables included, and also question the contention that these few variables are effective surrogates for all other considerations. Major concerns include:

1. The calculations proposed for assessing cost-effectiveness take into account just two variables, new riders and travel time savings for existing riders, as the only measures of benefit. While these are basic factors to be included in any analysis, they could be effectively refined and expanded. For instance, these variables do not account for any differentiation among types of passengers being served, nor do they account for what may be wide variation in trip lengths between alternatives or between areas of the country. Consideration might be given to different or additional variables (e.g. weighting for transit dependent ridership, use of passenger-miles, etc.).

2. In no way can the few variables specified in the equations be considered adequate surrogates for the host of benefits, both quantitative and qualitative, that high capacity, fixed guideway transit service brings. In many cases the benefits which are not accounted for cover matters of direct federal interest (e.g. broad economic development, environmental improvement, etc.). It is not unreasonable to think that in some circumstances, the qualitative benefits that cannot be reduced to dollar terms or a single index may be of *greater* importance than the quantitative benefits which form the core of the proposed analysis procedure. We feel strongly that evaluation of major transit capital investments should directly incorporate a much broader spectrum of benefits and impacts. Consideration might be given to a host of additional factors.

3. Some critical objectives and measures are consciously dismissed. We disagree with the direct assertion contained in the policy statement that there is no federal interest in providing ". . .maximum comfort, convenience, amenity and other such benefits." A major justification for new high-capacity systems and services, particularly rail, is to attract riders from their automobiles or to reduce severe overcrowding on existing facilities. Indeed, the heavy weight given to new riders in the proposed analytical procedures is presumably a confirmation of this intention and objective.

In order to be successful, investment in new systems must be competitive with other modes in qualitative aspects. To deny the importance of financing systems that are competitive in these respects is to ensure the failure, or less than optimum performance in attracting new riders. Federal policy should not restrict the ability of industry and local officials to meet the qualitative demands of the American public.

The point is that in their current form, neither the cost-effectiveness calculations nor the very limited consideration given to other factors results in an objective or comprehensive evaluation.

4. We strongly disagree with the inclusion of the "overmatch" factor as an offset to project cost in the calculation. There are a number of important reasons why this factor should be removed from any measure which is linked to judgements of project eligibility or performance;

   a. Overmatch, or the absolute amount of non-federal funding, is not a measure of transportation goal achievement, which the indices are supposedly designed to measure;

   b. The inclusion of an overmatch factor will potentially reduce the program to a bidding war that introduces additional fiscal disparities, whereby the areas that already command the greatest resources will be further rewarded and those which have otherwise similar transportation needs and projects but a more constrained economic and fiscal environment will be placed at a disadvantage. It should be the federal responsibility to diminish or restrain fiscal disparities rather than exaggerate them.

   c. The use of overmatch as a major factor places transit investments at an increasing relative disadvantage when there is strong competition for local funds. Projects funded by Section 3 are already at such a disadvantage as a result of the matching ratio being dropped to 75/25 while highway projects are still funded at 80/20 and more;

   d. The practical requirement to provide more than a 25 percent share contradicts the statutory language of Section 4(a) which states that, "the federal grant for any such project to be assisted under Section 3 shall be in an amount equal to 75 percentum of the net project cost." (Net project cost is defined as the amount of the project that cannot be financed from operating revenues);

e. The overmatch factor applied at the project level is blind to both the fiscal capacity of a region and to the broad level of transportation support and investment that is currently being made on projects other than those being evaluated.

The transit industry believes these are powerful and persuasive arguments for excluding the overmatch factor from any analysis of cost-effectiveness or from any decision, the effect of which is to deny the use of Section 3 funds or sources other than Section 3. It may be appropriate, however, to consider overmatch independently as a factor in annual funding decisions to the extent that additional non-federal funds are provided to accelerate construction and implementation schedules.

Finally, it should be noted that in no other federal program that we are aware of is the concept of "overmatch" used as either a factor in cost-effectiveness analysis or to force higher than statutorily required non-federal support as a practical precondition of funding.

Mathematical Form of the Cost-Effectiveness Analysis. The very simple and precise form of the proposed cost-effectiveness equations raises several additional questions that need further consideration:

a. The form of the equation indicates that all factors are considered to be of equal importance, since no weights are assigned; we question whether this was specifically intended and whether it is an accurate reflection of federal goals;

b. Similarly, the form of the equations dictates that any and all factors that may be included in the analysis are considered to be of equal importance in all areas of the country; we question this apparent intention, since it would diminish greatly the role of local officials in articulating priorities and serving local goals;

c. The precision of the proposed equations contrasts markedly with the lack of precision of the data and projections to be used in the calculations. As a result, the equations provide mathematical precision at the expense of both comprehensiveness and accuracy. The detailed description document directly recognizes this fact by suggesting that the only value of the indices is for ranking projects into groups and that variations

> in index figures themselves would be difficult to confidently interpret or control. The question then is why should such a precise mathematical form be used at all, particularly to drive threshold judgements early in the process in which proposed projects are declared ineligible to proceed.

Volatility in the Equations and Indices. The most questionable aspect of the proposed cost-effectiveness analysis is the extreme volatility of the indices with respect to changing levels of ridership and travel time savings. It is well-established that even with the most sophisticated and closely controlled projection techniques, the values of those few factors used in the equations may be subject to modest (or even significant) errors introduced from a variety of sources. To be credible and useful, the analytical mechanisms should exhibit a degree of stability that minimizes rather than magnifies the effects of expected variation and error.

Using project data developed by UMTA, a number of hypothetical examples of small variations and their effect on the indices illustrate the extreme volitility of proposed equations.[*]

1.a. If ridership estimates associated with a major heavy rail project are 10 percent lower than projected, the indices are increased (made "worse") by over 800 percent;

b. If the same negative 10 percent error occurs in both the projected ridership and travel time savings, the change in the indices is even greater;

2.a. Based on the calculations already done by UMTA for a light rail project, it is considered ineligible, since ridership associated with the project is less than the TSM alternative; However, if the original LRT-related ridership estimate was underestimated by as little as one percent,the project would be eligible for further consideration and evaluation; if the original LRT-related ridership estimate was underestimated by only four percent,a recalculation would not only make the project eligible, but would place it among the top five projects in terms of both indices;

b. If for the same LRT project, the original ridership estimate was underestimated by four percent, and the TSM ridership was overestimated by four percent, a recalculation would rate the project in the top four;

3.a. If original projected ridership associated with a major busway project represented only a two percent overoverestimate, a recalculation would make the project ineligible under the proposed process.

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[*] Forecasting errors of + or - 10 percent are not uncommon. The examples cited are used only for illustration purposes and there is no basis to assume that such variation may actually exist for any of the projects mentioned.

It should be clear from the above examples that the indices are highly sensitive to very small changes in the values of the variables used in the equations. Since many of the detailed aspects of the forecasting and projection procedures are not subject to any consistent standards, and since validation, verification and national consistency for data and for each minor component of such projections is beyond UMTA's capacity to control, the application of the indices is highly questionable. This is particularly true since the equations must be used to make threshold judgements which may result in decisions on project eligibility or ineligibility. Because of this extreme volatility, the entire arithmetic approach to cost-effectiveness as currently proposed, should be discarded and a different evaluation and ranking framework developed.

Relationship to Approaches in Other Federal Programs. In a number of instances, other discretionary federal capital assistance programs are faced with a similar need to evaluate proposed projects. The approaches taken in some of these programs illustrate both examples that could be adopted and procedures that vary considerably from those proposed in the UMTA policy. In further consideration of revisions to the policy, the features of other programs should be more closely evaluated. Some of these include:

1. The fact that few, if any, similar programs rely so exclusively on a mathematical statement of cost-effectiveness. While the FHWA Discretionary Highway Bridge Replacement and Rehabilitation Program uses a precise formula and index approach, that procedure is based on:
    a. Specification of equations and variables explicitly contained in statutory language;
    b. Measures of need officially sanctioned by the industry (AASHTO);
    c. Firmly established, verifiable empirical engineering standards and data.
2. In no instances are cost-effectiveness calculations alone used to determine absolute eligibility of projects. The HUD Urban Development Action Grant program does use an absolute threshold measure of public/private funding ratio to judge eligibility, but the nature of the program is vastly different from UMTA's since UDAG is a gap-filling program, not the major source of project support. The overall UDAG project ranking procedure, which is based on a point score concept, utilizes a broad range of factors which are grouped and weighted, and which include a strict statutory procedure for one of the sets of factors (degree of "economic distress") and qualitative assessments for other factors.

3. In no instance is the concept of "overmatch" used to force lower federal funding levels or as a measure of cost-effectiveness. The EPA Construction Grants program does include an overmatch feature, but it is used to allow grantees to exceed "reasonable estimates of project cost" if they agree to provide larger than statutory non-federal match. The Construction Grants program also uses highly empirical, scientific measures and data related to exacting statutory effluent standards to rank projects; few such consistent or scientific standards or measures exist in transit planning.

4. Most other programs utilize a broad combination of quantitative and qualitative factors in evaluating funding proposals. In the case of the EPA Construction Grants program, grantees determine the weights of rating criteria. Cost-effectiveness judgements are made on the basis of "lowest present worth" of investments required to meet statutory performance guidelines, unless "non-monetary costs are overriding."

   Finally, management of the Construction Grants program is assisted through a formally established, eleven year old, "Management Advisory Group" of industry professionals and other outside interests. This approach has considerable merit but has never been attempted by UMTA on a sustained basis.

While we have not reviewed other federal programs in detail, it appears that there are substantial differences in how overall evaluation procedures and cost-effectiveness judgements are made. The comparison has shown, however, that the proposed UMTA policy is substantially narrower and in many instances inconsistent with or not comparable to other approaches both within DOT and within other federal agencies. Further detailed review of these and other federal programs may be helpful in improving the UMTA process and procedures. Some consideration might be given to establishing a broad evaluation framework that could be consistently applied through the Department rather than promoting vastly different approaches between modes.

Program Management and Administration

With respect to the features of the policy which dictate how the overall process is to be administered and managed, there are several major problems that should be corrected.

The first has to do with the intent to give non-federal cash contributions to projects more favorable consideration than in-kind contributions. Regardless of the way in which this distinction is made, it contributes to a bias in the process that favors areas that already have greater fiscal capacity. There is no justification for such an imbalance other than the direct reduction of federal dollar commitments, and we strongly urge that all types of contributions toward project cost be considered fully and treated equally.

Perhaps the most significant and onerous aspect of the proposed approach to program management is the series of restrictions or prohibitions that are imposed on an applicant's use of UMTA funds other than Section 3. There are contradictions as well between the published policy statement and the detailed description document in some of these areas.

1. The policy clearly states that only Section 9 funds and or Interstate Transfer funds can be used for alternatives analysis and preliminary engineering. Having made this declaration, (i.e., no longer allowing Section 3 funds for preliminary engineering or Section 8 for alternatives analysis), the policy applies additional major restrictions to how those funds can be used. Included is the absolute prohibition that no source of UMTA funds can be used to carry out preliminary engineering on projects that have not satisfied UMTA's threshold requirements. Regardless of the fact that the threshold requirements themselves are highly questionable, we strongly reject the imposition of such a prohibition on the use of Section 9 formula or Interstate Transfer funds for preliminary engineering, which by nature are available to be used at the discretion of local officials.

2. The use of and constraints on Interstate Transfer funds are unclear because the policy statement references Interstate Transfer Funds generally and the detailed description document speaks to differing treatment of Interstate formula and Interstate discretionary funds. Since Interstate Transfer funds are either provided by formula or earmarked, no differentiation need be made and no prohibitions should be imposed.

3. It also appears highly inappropriate and premature to require a contractual provision that Section 3 funds will never be sought if a project is pursued with Section 9 or Interstate funds but has not satisfied the preliminary engineering threshold requirements. This denies the opportunity for a project to demonstrate its worthiness in terms other than those used in the thresholds and it contradicts UMTA's stated interest in seeing that "routine" capital needs are met from the Section 9 program.

4. Finally, the policy indicates "favorable" treatment will be afforded projects whose sponsors formally agree to limit their use of operating funds. The industry philosophically opposes the linkage between major capital investment decisions and any commitment to limit or reduce the use of authorized Section 9 operating funds. The use of Section 9 funds, particularly the statutorily allowable operating share should not be a factor in major capital investment decisions.

The most objectionable or questionable features of the proposed program management practices are those which reimpose intrusive federal restrictions on the overall transit program and go well beyond those constraints mandated by statute or legislative intent. We believe that in these instances clearer direction from Congress is essential before such restrictions are imposed.

OPTIONAL FRAMEWORKS FOR CONSIDERATION

Based on the issues raised in the previous comments, we strongly believe that the proposed policy contains a number of serious flaws and disadvantages that are consequential enough to warrant its withdrawal or major restructuring. It remains evident, however, that changes and improvements to the existing major investment policy are necessary, and the transit industry supports making such changes, including a fair and more balanced approach to the application of some standards or criteria in selecting major capital investment projects for federal support.

There are a number of alternative approaches and evaluative frameworks that could be explored which would reduce or eliminate many of the objectionable features of the proposed policy. These broad alternatives should form the basis for initial, indepth discussion between the industry, UMTA and the Congress.

First of all, any optional approach must be significantly broader in scope and contain direct observations on a host of qualitative and quantitative factors not dealt with in the proposed policy. With this general objective in mind it may be possible to explore alternative approaches noted below:

1. A very basic question relates to whether or not a single narrow, set of procedures need necessarily be used across the entire planning, analysis, engineering and project selection process. As an option, it seems that there is substantial merit in differentiating:

    a. The process used for oversight of the planning and analysis process; and,

b. the procedures required to support final project funding decisions and management of the Section 3 resource.

A much broader, less restrictive evaluation and review process seems warranted in the former case, while a more rigorous approach could be justified in the latter.

2. Consideration could be given to a matrix-type analysis that fully captures a much broader range of project characteristics and performance features possibly within several major categories. Such an evaluative framework could include a host of quantitative as well as qualitative factors. In some instances these might be appropriately summed or combined arithmetically; in other cases no such approach would be required.

   In such a framework, differing implicit or explicit weights for various factors could be noted by applicants, by UMTA and/or by Congress in arriving at recommendations; the framework could be open-ended, allowing for the addition or deletion of factors or changing weights as policy, economic or social conditions etc., warrant;

3. Variations could be developed on the existing and proposed sequential project planning, analysis and funding process.

   The application of "thresholds" could be altered so that prospective projects were reviewed on the basis of broader standards or norms rather than strict "criteria." Rigorous standards could be applied to the management of the final design and construction pipeline rather than throughout the entire process, to avoid premature judgements on project "eligibility." Standards could be developed or applied in terms that are other than absolute, i.e., a certain degree of variation from standards or norms could be allowed, or variations from individual standards or norms could be allowed to balance one another.

4. The overall process currently being used could be restructured into various approaches which establish a different sequence or set of tiered steps. A simpler two-tiered approach might include a first tier incorporating system planning and alternatives analysis. A broad set of quantitative and qualitative factors, standards or norms could be developed and projects, could be evaluated without direct comparison, competition or ranking. The second tier of activity could control

access to the use of any UMTA funds for construction purposes, i.e., stricter management of the funding decisions and program resources, including Section 3. More rigorous measures or tests might be applied, using both quantitative and qualitative factors specifically to prioritize or rank projects for final funding decisions. In no case would this necessitate a prohibition on the use of Section 9 funds for construction of projects not receiving Section 3 commitments, nor would those projects not receiving funds be denied future consideration.

Certainly, a wide variety of optional structures and frameworks exist for the improvement of the current process. We strongly recommend that these be explored more fully through a more productive consultative process than the traditional federal review and comment procedure allows.

Toward that end, the industry stands ready to work either formally or informally with UMTA and Congress to develop a better process and procedure, one that properly reflects broad program goals, accounts as fully as possible for local needs and priorities and results in the timely implementation of urgently needed major transit capital investments.

We appreciate the opportunity to provide these comments and hope that they will be taken into account, along with the comments provided by other members of the transit industry.

Sincerely,

Jack R. Gilstrap RB

Jack R. Gilstrap

Senator **Hecht**. What percent of your contracts are privately bid?

Mr. **Premo**. Publicly bid?

Senator **Hecht**. Competitively bid?

Mr. **Premo**. For bus services themselves, I think we have 8 or 9 percent. What we have—it sounds good to have competition all the time, but we have got a bus operation which ever since I have been in New Jersey Transit has been operated by a private carrier. He's made the investments in a garage. He's doing a wonderful job. He's developed arrangements and working relationships with local governments in this particular county—I'm referring to Middlesex County, the home of New Brunswick, our State university, Johnson & Johnson and others, the booming Route 1 corridor. Should we put that contract out to bid to get competition?

The fellow has got a garage there. We work out an arrangement, a negotiated arrangement. It's a private carrier contract. I'm not sure what we gain merely by putting that out to bid when in fact it already is a public-private partnership.

I would also note—I appreciate your patience as I speak about some of these matters—that we in our corporation shall, on the 29th of this month, advance to our board a major contracting out of bus services policy statement that's been generated consistent with the direction of the UMTA guidelines. We've worked closely with UMTA in this. But ultimately, it is a State and local policy framework moving in the direction of the policy concerns expressed by UMTA and contained within the UMTA Act.

I think the national policy position of this association is that we ought to have that running room locally to do some things one way in New Jersey and differently in West Virginia, New York, Texas, and California.

We are not afraid to be held to the test of whether in fact we're moving now.

Senator **Hecht**. Mr. Frank.

Mr. **Frank**. As APTA chairman, on behalf of all of APTA, we pledge that we will be working very closely with UMTA to continue to develop a constructive approach to privatization because we do believe in it. It's just a case of putting it together.

Senator **Hecht**. I have got just three more questions and we're running out of time, but let me hurriedly go over them.

Your organization often points to the special categories of riders such as the elderly and handicapped that your systems serve to justify continued and expanded Federal support. Yet we can see from your own reports that half of these special needs are contracted to the private sector with great success.

Why can't we expand this to other services?

Ms. **Shaffer**. Can I take that?

Senator **Hecht**. Do they give you the tough ones?

DEMAND-RESPONSIVE SERVICES

Ms. **Shaffer**. Well, in large part, stop and think about it. When you're talking about a door-to-door, call-in, I need-a-ride-tomorrow-at-4 o'clock-service, it's a service unique in its nature. We call it in the lingo, "demand-responsive." It's a modification of taxicab service.

Take that and contrast it with the regular route service running all day long with all the public obligations that Mr. Frank alluded to, the union situation which I from a labor State understand, and we work with it productively. We do not find it hampering to how we operate at the TTA. To contract out that elderly and handicapped service makes sense. We are not in the business of demand-response service. Our whole organization is oriented to the long-haul daily run.

In Huntington, WV, if I put up for bid any route in my system, nobody is going to answer it. When you stop and think about it, we're a public transit system today because the private operator couldn't make any money at it. They're going to jump in today and bid on it? They're going to take my route that costs me 80 percent against the passenger's 20 percent?

So what are we going to do? Every time we turn around, 12 months a year, we're going to publish a legal ad, $67.50. We're going to spend all day long putting it together. We're going to put it out for bid. We're going to run it on Tuesday and 2 weeks later on Tuesday again, and it's a class 3 thing, and we're fulfilling the obligations of UMTA and we're wasting money and we're wasting time that we need to use to productively manage our operations rather than going through this act of putting out a loser for bid.

Jerry's circumstance is different. He should be applauded for what he is able to accomplish in New Jersey. His environment is different. But the TTA's in this country largely outnumber the New Jerseys and we deserve to be treated, as we are, unique animals compared to New Jerseys. We aren't all New Jerseys. We wish we could do what Jerry can do, but that's not our job. It's a different job.

Senator HECHT. Do you think you've given them every opportunity?

Ms. SHAFFER. Pardon me?

Senator HECHT. Do you think every opportunity is given to bid?

Ms. SHAFFER. We haven't had to do it yet. I wouldn't think of doing it. I mean every opportunity to bid—it would not occur to me, Senator Hecht, to bid out a loser. That's an illogical exercise. We'll put this out for bid and see who wants to lose money on it like we do? Who's going to bid on it?

Senator HECHT. I just want your answers for the record, that's all. Again, you state very eloquently the point. I should have had you up here first rather than keep you to the end.

Ms. SHAFFER. Thank you.

Senator HECHT. I asked this question of an earlier panel but I'd like to hear your comments.

As part of the Transit Act we have a provision called "Buy America" which was put in place because of unfair competition from government-subsidized foreign steel producers. And yet you assert a right to compete for private commercial charters with your heavily subsidized systems.

How can you justify this position?

Mr. TURNEY. Well, speaking of that from a manufacturer's point of view, the "Buy America" provisions that are there are almost essential to maintaining a level playing field. To give a specific example, I cannot quote our products to Japan. They will not accept the quotation.

Second, frequently we are told in bidding on our components going on to foreign-made rail equipment, for instance, we are told that, "we really are not interested in your quotation, we're going to make it in the local country." Specifically, in a major contract in the New York City area we were told we had two choices. One was that we could license a manufacturer in Japan to do the work and the other was they would do it without us.

So without a reasonable "Buy America" provision—and I maintain that, sir, to be 50 percent—without a reasonable "Buy America" provision, the local biases in the foreign countries, whether they're local subsidy or local policy, will virtually eliminate manufacturers that are in the subsupply category such as myself.

CHARTER SERVICE

Mr. **Premo**. Mr. Chairman, with respect to the portion of the question regarding charter, we're really in a bind as public transit operations. We've been charged by our legislatures, by our riders, by the taxpayers in our States to operate in a businesslike fashion, to show creativity and imagination, instead of what I think is an unfair characterization of us as bumbling, bureaucratic public servants in the worst sense of the word.

One way to be businesslike is to use an asset in a creative fashion. The law allows properties to operate charter buses during other than peak hours. And in fact that's what's been going on. People have been operating within the law. We haven't been breaking any laws or regulations. We've merely been operating charters to generate some money to fill in for lost Federal revenues and to avoid a need to increase State and local taxes to support public transit. State governments put in 12 percent more money last year to support transit in this Nation than they did the year before. So that's the framework for operating charter service.

Ms. **Shaffer**. Could I add a little something to that?

Senator **Hecht**. Sure.

Ms. **Shaffer**. As well as what was earlier referred to by Mike Bolton. We do a lot of charter service that's 2, 3, 4 hours stuff. It's the Girl Scouts who want to go down to view the Amtrak station. The senior citizens want to go to the mall shopping. We're fortunate in Huntington to have two trolley car streetcars that are just super. We do a lot of wedding receptions. The basketball games on the weekend, the local bar books the buses and they run them up to the stadium and bring them back after the game.

Trailways, Greyhound, Ohio Valley Charter Bus, they don't make money on those. They don't do those. Our local taxpayers are paying property taxes. We're sitting there with a fleet of buses and when I answer the phone to say, "I'm sorry. You have a transporation need but the Federal Government says we can't do charter work." You think I'm going to get that levy we need? Because that 96 or 86 percent of the public that doesn't ride the bus system every day can do a lot of charter work at TTA and they vote for TTA and they think it's good in the community until we tell them, "I'm sorry, you guys, but the Feds have shut it down. We can't do that any more." "Well, what are you doing with the buses?" "Well, they're parked."

Mr. **Frank**. Vicki's point is excellent and she's really speaking for more than 200 small systems and probably 100 mid-sized systems that have the same concern. We in Syracuse have exactly that situation. It's very profitable to us within our transportation area, and if that's taken away from us we have to go get funding from someplace else. That allows us to run a business and not a Government agency.

Senator **Hecht**. Let's go on. Very well said, by the way.

OVERHEAD COSTS

Earlier testimony states that the average overhead cost for public transit systems as revealed in section 15 data are almost 20 percent. Public entity or not, this is an unacceptable level. How are you proposing to reduce these high overhead costs?

Mr. **Premo**. I think we can benefit, Mr. Chairman, by understanding the context of that earlier testimony and I think we ought to take a look at it and follow up with you. If the suggestion is that we're not serious about controlling costs, then I guess the strike we took 3 years ago after we took over Amtrak so that we could control costs in New Jersey wasn't evidence of our interest. But I think it was.

I want to understand the context for that earlier comment so that we could respond for the record.

Senator **Hecht**. Sure.

Mr. **Frank**. I don't know where that information came from.

Senator **Hecht**. You do not agree with it?

Mr. **Frank**. Not at all. It certainly didn't come from Syracuse and I know it didn't come from New Jersey, and somebody has some mirrors that we don't know about.

Senator **Hecht**. It was in Mr. Sherlock's statement on section 15.

Mr. **Frank**. We will respond to that through staff.

Senator **Hecht**. Would you, please, because it is an unanswered question, and I'd like to have it answered for the record since there's a question on that.

[See attachment A, page 240.]

Ms. **Shaffer**. Could I add just one little comment to that that we've alluded to along the line?

Most of our boards have businessmen sitting on them and most of our boards don't come in and rubber stamp what we do. Board meetings sometimes can just be real tough. With the business community sitting on our boards watching how we're running our businesses, I find it a little difficult to believe that transit in this country has excessive overhead. Our boards wouldn't allow it. They'd go crazy. I'd like to see the statistics, too, to justify that statement.

Senator **Hecht**. We will provide them and you will have the opportunity to answer for the record.

Mr. **Turney**. I would just add that from a manufacturer's point of view, I would be very happy if we could get our overhead costs down to 20 percent. My hat is off to these people.

SELECTION CRITERIA

Senator **Hecht**. Without criteria, you end up with us in Congress deciding which projects are funded. I don't think this results in the most qualified projects. How do you feel about it?

Mr. **Frank**. Without criteria?

Senator **Hecht**. Selection criteria. Let me restate it a little bit better for you. That was on the first question which I did not follow through. What are your thoughts on selection criteria for discretionary grants?

Mr. **Premo**. Mr. Chairman, perhaps it would be helpful for us to provide you for the record and discuss with your staff some of the work which has been occurring in our various committees. We've tried to take seriously the selection issue. It's been a matter of concern in our policy and planning committee. It's been debated at length and with intensity in our rail subcommittee of our legislative committee. I would like to share some of that with you and see how we can build on that.

[See attachment B, page 243.]

Senator **Hecht**. OK. There will be some questions provided by other Senators in the next few days. Did you have something to say, Mr. Frank?

Mr. **Frank**. Let Jerry go ahead. He had something else and then I'll make a comment.

Mr. **Premo**. If I could, Mr. Chairman, make one comment about Administrator Stanley's stewardship of the program. He came to our legislative committee meeting in January and he did something no UMTA Administrator has ever done. He laid out a schedule for the receipt of and approval of grants under the Formula Grant Program.

We've been working as an association very closely with UMTA to see what can be done to expedite the delivery of grants. I think it is important for us as an industry to indicate that we understand that approximately 200 grants were approved yesterday in 1 day as first evidence of this commitment by UMTA to expedite the delivery of the grant system.

And while this association has come before you in the past and come before other committees to speak with concern about the delivery of grants, I think it is important that we publicly state our appreciation for the first stage of an expedited grant delivery system. It's putting us on the line to deliver and my sense is that this action by UMTA yesterday, while we may have some philosophical differences on the program, delivering within the available money is important and I wanted to make you aware of that.

Senator **Hecht**. Thank you. Mr. Frank, do you have anything to add?

Mr. **Frank**. Coming back from a west coast meeting that we attended, I know you're from that part of the country, there's such a tremendous need for these new starts throughout the Nation, not just the West but the South and many other areas, and these are investments that are going to be still in use 50 to 100 years from now. And I just think that it's essential that the criteria have some flexibility and include obviously the local need because this is a need that our children and our grandchildren are going to enjoy.

Senator **Hecht**. Vicki, you've done such a good job up to now in espousing your philosophy, do you want to close out with any pearls of wisdom?

Ms. **Shaffer**. I would like to thank you for the trouble that you have gone to and in the depth of the questions that you have presented to the panels. Sitting here since about 9:30, I think you've given us a tremendous opportunity to air the issues and I'm sure, speaking for all of us, we really appreciate it. Thank you.

Senator **Hecht**. Thank you very much.

The hearing is adjourned.

[Whereupon, at 12:25 p.m., the hearing was adjourned.]

[Response to written questions and additional material supplied for the record follow:]

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ FROM WILLIAM W. MILLAR

Question 1. One main purpose of these hearings is to help this committee decide the level of Federal funding for mass transit programs. In order to give us a complete picture of the needs of transit authorities and alternative sources of funds. Would you comment on alternative sources of funds and prospects for increasing these sources, such as local and State contributions, bond financing, and farebox revenues?

RESPONSE TO QUESTION #1

State and Local Contributions

PAT has received increased operating assistance funds from the County of Allegheny and the Commonwealth of Pennsylvania over the past few years. However, the increases have not been large enough to offset the combination of cuts in federal operating assistance and inflation. Therefore, PAT has raised its fares three times since 1980 and cut service by almost 15% since the late 1970's.

Additionally, the County of Allegheny uses $12 million of federal revenue sharing funds which are proposed to be eliminated by the Reagan Administration at the end of FY 1986 to fund PAT operating expenses each year. Thus, PAT stands to lose not only $10 million of federal operating assistance funds, but also $12 million in federal revenue sharing funds, for a combined loss of $22 million -- something PAT and the County cannot withstand.

The prospects for significantly increasing county funding for transit is remote considering the poor health of the western Pennsylvania economy, and that the county is faced not only with cutbacks in transportation, but also virtually every other federally-funded program.

Farebox Revenues

PAT currently has one of the highest base fares in the nation ($1.00). If federal operating aid is eliminated, fares would have to be increased 25% to offset the loss. This would be counterproductive as higher fares generally mean fewer riders. Also, as mentioned above, PAT has previously reduced service system-wide as a result of reduced federal funding. This, too, has been counterproductive because with less service there are less riders and concomitantly reduced farebox revenues.

Federal operating funds must be increased, or at a minimum, current levels must be frozen to avoid further fare increases and service reductions.

2
HEINZ-MILLAR

Question 2. We have heard from witnesses thus far that support modification of the 1982 act to include multi-year contracting for capital projects? Could you comment on how such a provision would improve management, encourage efficiency, and improving financing prospects for transit systems?

RESPONSE TO QUESTION #2

Multi-Year Contracting for Capital Projects

Multi-year financing can improve management; it does encourage efficiency as well as improving financing prospects. For example, PAT was the first transit agency in the country to issue Advance Construction Notes for its Stage I South Hills Light Rail Transit Reconstruction Project. The ability to issue these tax-exempt notes enabled PAT to keep the project on an uninterrupted schedule and eliminate millions of dollars of increased costs to the federal government that would have resulted from delays awaiting the receipt of federal grant funds. It has been estimated that had this innovation been possible at the beginning of the project, its $550 million cost would have been reduced by at least 11% ($63 million).

Question 3. We have heard testimony from various witnesses arguing for and against modification of the legislation to authorize UMTA to require a fixed percentage of transit services to be contracted out. What would be the impact of such a proposal, in terms of administration, transit services, and costs, Do you believe these decisions would be made more or less effectively at the local level?

RESPONSE TO QUESTION #3

Fixed Percentage of Transit Services to be Contracted Out

PAT believes that decisions on all transit services should be made at the local level and that a requirement that a fixed percentage of transit service be contracted out will not work effectively. Currently, most systems contract out some service and a large percentage of small systems contract out all services. In addition, each geographical area has its own unique set of problems and issues. To require that a specific percentage be mandated would not be in the best interests of the federal government or local government.

If the federal government desires to use additional contracting out of services, incentives should be established so that transit authorities who choose to contract out services would receive additional federal funds without the requirement for local match.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ FROM WILLIAM L. VOLK

Question 1. One main purpose of these hearings is to help this committee decide the level of Federal funding for mass transit programs. In order to give us a complete picture of the needs of transit authorities and alternative sources of funds. Would you comment on alternative sources of funds and prospects for increasing these sources, such as local and State contributions, bond financing, and farebox revenues?

Answer 1. ALTERNATIVE SOURCES OF FUND

Champaign-Urbana is a 50 bus system in a relatively small community. Prospects for increased local funding are not good. The State of Illinois already provides both operating and capital assistance to our system; we do not expect any significant increase in state assistance in the foreseeable future. The use of bond financing for a system of our size is unlikely. Nor will it be easy to raise farebox revenues. Our fares have increased substantially over the last five years. Further fare increases will undoubtedly result in decreased ridership. In summary, we are maximizing our effort at the state and local level to support transit operations. Further cuts in Federal assistance can not easily be made up with greater non-Federal resources.

Question 2. We have heard from witnesses thus far that support modification of the 1982 act to include multi-year contracting for capital projects? Could you comment on how such a provision would improve management, encourage efficiency, and improving financing prospects for transit systems?

Answer 2. MULTI-YEAR CONTRACTING.

While multi-year contracting may be very helpful for major transit projects, the concept has limited usefulness for smaller systems such as Champaign-Urbana. While we do not oppose use of the device within the UMTA program, we would caution against over commitment of discretionary funds through the multi-year approach. The danger is that insufficient funds could remain available for worthwhile projects outside of the multi-year commitment process, endangering the ability of smaller systems to gain fair access to discretionary funding.

Question 3. We have heard testimony from various witnesses arguing for and against modification of the legislation to authorize UMTA to require a fixed percentage of transit services to be contracted out. What would be the impact of such a proposal, in terms of administration, transit services, and costs, Do you believe these decisions would be made more or less effectively at the local level?

Answer 3. CONTRACTING.

We strongly oppose any legislative or regulatory attempt to impose Federal contracting-out standards on local transit systems. Contracting-out, or other competitive mechanisms, may well be appropriate for some systems; they may also be very inappropriate for others. The decision to use private sector services as part of a transit systems operations is very dependent on the nature of the system, the local political situation, and other operational factors. Mandating a specific approach at the Federal level is illogical and could result in inefficient operations. These decisions are best made at the local level.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ FROM MICHAEL P. BOLTON

Question 1. One main purpose of these hearings is to help this committee decide the level of Federal funding for mass transit programs. In order to give us a complete picture of the needs of transit authorities and alternative sources of funds. Would you comment on alternative sources of funds and prospects for increasing these sources, such as local and State contributions, bond financing, and farebox revenues?

Answer 1. Many transit systems are currently maximizing their alternative sources of funds. Primary sources would be: farebox revenue, local tax support, state support, and advertising revenue. Although I understand that some bonding financing is going on, I believe that this would be a supplementary source for capital funds, not necessarily a source of replacement funds for operating dollars. Some states, such as Michigan, provide a great deal of state support. Presently, the Ann Arbor Transportation Authority receives about 37% of its operating assistance from the State, contrasted with a 13% share by the Federal government. Based upon some figures which APTA has prepared, the Federal government provides, on average, less than 8% of the operating assistance to mass transit throughout the country. However, there are some systems in the United States which receive 30-40% of their operating budgets from the Federal government.

Question 2. We have heard from witnesses thus far that support modification of the 1982 act to include multi-year contracting for capital projects? Could you comment on how such a provision would improve management, encourage efficiency, and improving financing prospects for transit systems?

Answer 2. Multi-year contracting for capital projects would permit transit authorities to manage the procurement and development processes more efficiently. It would allow them to phase work so that advantages can be gained from the market effects on contracting opportunities or construction climates rather than having to wait until the money is in hand before proceeding with a particular aspect of a program of projects. Although we at Ann Arbor do not have to worry about it, I know a major concern for the RTA in Chicago, during my days there in the late 70's, was the rehabilitation of right of way and upgrading of switch equipment for the various railroads which were under contract. I have no idea of what the additional costs were as a result of single year grants, but I do believe that it was rather substantial because of the start up costs involved with each phase of their program rather than being able to continue a program from year to year to achieve the single goal. Efficiencies available for the Authority itself would have been in reduced staff time for grant processing and development. Even though much of the grant work is boiler plate, justifications and costs estimates and analyses do take a substantial amount of time in the current grant process. My biggest concerns with the capital programs are with the grant programs themselves. We need to run transit like the business that it is. We need to maximize the return on our dollar and, thereby, reduce the administrative and overhead costs associated with current grant procedures. I said it before and I'll say it again, if the Fortune 500 companies ran their businesses the way we are forced to run ours, they'd be bankrupt. We can minimize the cost of our programs and yet get quality products if we bring a business sense to the process.

Question 3. We have heard testimony from various witnesses arguing for and against modification of the legislation to authorize UMTA to require a fixed percentage of transit services to be contracted out. What would be the impact of such a proposal, in terms of administration, transit services, and costs, Do you believe these decisions would be made more or less effectively at the local level?

Answer 3. The whole question of a fixed percentage of transit service being contracted out borders on the ridiculous. Transit systems that are doing their job are using every means possible to reduce their costs where they can. It's good business sense. This type of decision is more appropriately made at the local level. Let me just describe the scenario that was laid out for us. We currently subcontract about 5% of our total budget in operations with a local cab company. We also currently subcontract 10-12% of our support services; engines and transmissions, shelter repair, sign installation, janitorial work. Under the privatization, or competition, guidelines as proposed, we would get absolutely no credit, whatsoever, for any of that but would be required to competitively bid a minimum of 5% the first year, 10% the second, 15% the third, and 20% the fourth. When you take our operating and capital assistance together, the Federal participation doesn't quite equal the full 20% of our total capital and operating budgets, yet, they would mandate how that 20% should be competitively bid. It's good business to competitively bid, it's not good business to competitively bid quotas and it's not a real good idea to have ideologues dictating practical implementation of management plans.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ FROM DEANE DANA

Question 1. One main purpose of these hearings is to help this committee decide the level of Federal funding for mass transit programs. In order to give us a complete picture of the needs of transit authorities and alternative sources of funds. Would you comment on alternative sources of funds and prospects for increasing these sources, such as local and State contributions, bond financing, and farebox revenues?

(1) **Alternative Sources of Funding**

As my submitted testimony indicates, Los Angeles County has assumed a great deal more of the financial responsibility in funding transit programs after the passage of Proposition A in 1980. In addition, the Commission recently gained bonding authority to further enhance our ability to meet the area's transit needs. Nevertheless, these local sources of revenue can only stretch so far.

Transit programs have borne a disproportionate share of federal budget reductions. Since FY 1983, formula operating assistance funds under the Section 9 program have remained frozen at 20 percent below FY 1982 levels. As adequate and cost-effective transit service is clearly in the public and national interest, it is essential that the federal government continue to assist transit operators in meeting their capital and operating needs. If federal budget cuts continue to occur, the likelihood of higher fares and reductions in service increases.

Question 2. We have heard from witnesses thus far that support modification of the 1982 act to include multi-year contracting for capital projects? Could you comment on how such a provision would improve management, encourage efficiency, and improving financing prospects for transit systems?

(2) **Multi-Year Contracting for Capital Projects**

The Commission supports the modification of the STAA to include a provision allowing multi-year contracting for capital projects. This amendment to current law would greatly enhance the ability of local transit authorities to plan and coordinate capital projects in a more cost-effective manner.

Question 3. We have heard testimony from various witnesses arguing for and against modification of the legislation to authorize UMTA to require a fixed percentage of transit services to be contracted out. What would be the impact of such a proposal, in terms of administration, transit services, and costs. Do you believe these decisions would be made more or less effectively at the local level?

(3) UMTA privatization policy

This question appears to refer to UMTA's privatization policy for Section 9 grant applications. While the Commission supports the concept of a privatization policy which fosters competition, we believe that this policy should be implemented only when lower costs have been demonstrated and service quality is maintained. Further, the Commission does not support a federally mandated fixed percentage for determining the amount of transit service which must be contracted out. We believe that the extent of privatization in an area should be left to local discretion. In addition, the UMTA privatization policy should include some provision for reviewing the total effort of an area toward increasing private sector participation in public transit. In Los Angeles County, we have used locally generated funds to establish a coordinated effort with operators and cities. The result has been that 89 percent of all locally funded transit service is contracted out to the private sector. Current UMTA policy does not recognize this kind of local effort.

RESPONSE TO WRITTEN QUESTION OF SENATOR HEINZ FROM

Dr.GARY L. BROSCH

Q. Dr. Brosch and Dr. Teal, both of you have argued for reduced Federal funding for mass transit. In your work on the economics of Urban Transportation, have you conducted any studies, or are you aware of any such studies on the opportunity costs of a reduction in transit service, such as the economic impact of increased traffic and lost work hours, or parking fees and construction of parking facilities to accomodate the increased number of motorist?

A Mr. Chairman, I have not argued for reduced Federal funding for mass transit. It is my position, however, that due to structural deficiencies in the transit industry and in current Federal funding programs, Federal funding is not always used effectively. I have argued that Federal funding should be in the form of a block grant directed to surface transportation, urban mobility, rather than in the form of modal specific, categorical grants and that transit agencies be required to provide a portion of their services in a competitive environment. These changes would provide local policy makers with a better opportunity to consider opportunity costs as they make decisions regarding urban mobility.

The opportunity costs of transit funding should be examined in terms of other potential mobility improvements, as well. All potential mobility improvements, including traditional transit, roadways, carpools, vanpools, contracted service, subsidized taxi, staggered work hours, parking incentives and disincentives, signalization and other TSM options, should be examined for cost effectiveness. This determination of effectiveness will vary across individual circumstances and thus should be determined at the local rather than Federal level. A block grant approach would allow local determination of the opportunity costs of all methods for improving mobility.

RESPONSE TO WRITTEN QUESTION OF SENATOR HEINZ FROM
Dr. ROGER F. TEAL

Q. Dr. Brosch and Dr. Teal, both of you have argued for reduced Federal funding for mass transit. In your work on the economics of Urban Transportation, have you conducted any studies, or are you aware of any such studies on the opportunity costs of a reduction in transit service, such as the economic impact of increased traffic and lost work hours, or parking fees and construction of parking facilities to accomodate the increased number of motorist?

RE: Response to question by Senator Heinz

Dear Mr. Garn:

This question rests on an erroneous assumption, namely that a reduction in federal funding for mass transit will of necessity require a reduction in transit service. No such cause and effect linkage need exist. Transit agencies have a number of policies at their disposal which can allow them to absorb a reduction in federal transit assistance without service reductions. The two most important options are service contracting with the private sector and changes in work rules for their labor force. Both can save significant sums if intelligently applied. Moreover, the proposed reduction in federal assistance will involve a very small percentage reduction in the total operating budget of the typical medium to large transit agency, so the above policies could probably offset most or all of the impact.

The question also rests on erroneous assumptions about the relationship between transit service and automobile useage. The majority of transit riders do not use automobiles, since they do not own or have access to one. A significant portion of work trip commuters who use transit do have an automobile available, and would switch to the automobile if their transit service were eliminated, but service reductions generally do not encompass peak period commuter services. They usually are focused on low ridership services (commuter services are high ridership) where virtually all the users are transit dependents. Thus when modest service reductions occur, there is virtually no impact on automobile useage.

Relative to the question itself, I am unaware of any such studies. But as the above discussion indicates, all such calculations of opportunity costs would be highly theoretical, since in real life situations a reduction in transit service typically involves at most a very minor diversion of users to the automobile mode.

Sincerely,

Roger F. Teal
Associate Professor

RFT/clw

RESPONSE TO WRITTEN QUESTION OF SENATOR HEINZ FROM
NORMAN R. SHERLOCK

ANSWER OF AMERICAN BUS ASSOCIATION TO FOLLOW UP QUESTION

QUESTION

1. To American Bus Association Representative. In your testimony, you discuss labor cost savings achieved through the use of private bus companies for mass transit purposes. You state that these savings resulted most often not because you hired non-union employees, but that your operations did not involve "work rules". What specific rules are you referring to, and what are the noneconomic impacts of not having such rules, such as on safety of employees and riders?

ANSWER

1. ABA indicated that one of the factors that make private sector contracting generally more cost effective than public operation is greater private sector labor productivity, including avoidance of non-productive work rule provisions. This varies from contract to contract both with regard to public transit agencies and private operators. However, some of the work rules referred to include prohibitions or restrictions against part time employees; unduly burdensome overtime provisions and restrictive job classifications that prevent productive personnel usage.

   In addition, another non-wage item that is more costly for transit agencies is the general area of fringe benefits. For public operators, fringe benefit costs have escalated from 27% of salaries and wages in 1975 to 50% of salaries and wages in 1983. By comparison, most private operator fringe benefit costs are between 25% and 30%.

   Finally, there is no impact on the safety of employees and riders as a result of private operators' greater productivity. National Safety Council statistics consistently indicate that private sector intercity bus transportation is a very safe transportation mode. Moreover, all private bus operators are bound by the extensive safety regulations of the U.S. Department of Transportation and/or the safety regulations of their State of operation.

APTA

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RESPONSE TO WRITTEN QUESTION OF SENATOR HEINZ FROM
WARREN H.FRANK, JEROME C.PREMO, VICKIE SHAFFER, AND DAVID TURNEY

May 22, 1986

The Honorable John Heinz
277 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Heinz:

QUESTION 1. In response to your question to the American Public Transit Association's panel, "What information or research do you have, or would you be willing to do on the indirect economic costs of reduced public transit service -- such as traffic congestion and lost work time for commuters, parking fees, and construction of parking facilities?", I am pleased to provide the following information for the record of the April 16, 1986, hearing of the U.S. Senate Subcommittee on Housing and Urban Affairs of the Committee on Banking and Urban Affairs.

ANSWER 1. The APTA report, "The Economic Benefits of Transit" highlighted the economic benefits generated by mass transit. The report did not attempt to explore the indirect costs of reduced public transit service. However, a close examination of the report suggests that the indirect economic loss of reduced public transit service would be significant to riders of public transit, business establishments and employees of the transit systems.

A most recent event provides a dramatic example of what can happen in the absence of mass transit. During the recent transit workers' strike, the Greater Philadelphia Chamber of Commerce estimated a loss of $2 million a day in lost retail sales and higher absenteeism.

Transit systems, both bus and rail, attract new businesses and encourage reinvestment by supporting established travel patterns. In Brockton, Massachusetts, for example, a new bus transfer center is credited with helping to generate over $14 million in private investments.

The transit industry annually spends about $10 billion to purchase fuel, insurance, vehicle parts and to provide jobs and income to hundreds of thousands of employees operating over 1,000 transit systems. Every $100 million invested in transit operations generates $300 million in total business revenues and more than 9,600 jobs.

Capital projects generate revenues for industries which sell goods and services to transit and to other sectors of the nation's economy. More than $5 billion per year is invested in various types of transit capital projects.

An increasing number of companies are providing incentives for employees to take public transit to the workplace, saving thousands of dollars in the cost of parking spaces. Exclusive of land costs, an underground parking space costs $13,000-$15,000 to construct. Above ground construction costs $7,000-$9,000 per space while surface development averages about $3,000 per space.

Clearly, public support of mass transit is an economic investment in America's cities and rural communities.

Thank you for the opportunity to respond and for your leadership in mass transit issues.

Sincerely,

Jack R. Gilstrap

RESPONSE TO WRITTEN QUESTIONS OF SENATOR GORTON FROM ALAN GIBBS

1. Discretionary Grants: Please tell me what effect eliminating discretionary capital grants would have on a major construction project like the downtown Seattle bus tunnel?

Answer by Mr. Gibbs: Senator, I believe major investment projects, like our bus tunnel in Seattle or a maintenance garage in a smaller community, are best financed through a discretionary grant program. No formula can recognize the uneven timing of major transit projects in various communities.

We can't bank on a dependable flow of future federal formula grants. Consequently, we can't use formula grants, either directly or indirectly, for debt service on major projects.

A national discretionary grant program gives local authorities a time of construction contribution towards projects that occur on an infrequent basis locally. Our bus tunnel and other cost-effective major capital projects will most likely not be built if the discretionary grant program is terminated.

2. Bus Tunnel Benefits: But the bus tunnel is admittedly an expensive project. Can you argue that the benefits outweigh the costs?

Answer by Mr. Gibbs: Americans must continue to invest in new facilities if we hope to remain competitive in the world economy.

Our tunnel project in Seattle generates three types of long lasting benefits:

1. added capacity for economic growth;
2. enhanced operational efficiency and productivity; and,
3. time savings for our riders.

The tunnel will add peak hour capacity for 18,000 additional transit riders. Without this new transit capacity, the downtown economy will stagnate and no longer provide the new jobs and tax revenues so desperately needed to help alleviate the suffering caused by our still depressed timber, fishing and heavy manufacturing sectors in western Washington state.

The tunnel will also enhance our system's productivity by increasing the speed and reliability of bus operations in the downtown area. Seattle Metro will save approximately $4.5 million in net annual operating expenses when the tunnel opens due to the increased speeds. The tunnel will also enhance our schedule reliability throughout the metropolitan region since 80% of our buses pass through downtown at some point during the day.

Finally, and most importantly, the average tunnel rider will shave 54 hours per year off his commuting time. Just think of it Senator, thousands of daily commuters gaining one more week of productive time each year.

American society must invest in cost-effective projects like ours to remain strong.

3. Federal vs. Local Financing: Even granting the benefits of the bus tunnel, which I do, why should the federal government pay 50% of the cost of a project in Seattle? Why shouldn't you pay for it all locally?

Answer by Mr. Gibbs: Senator, we believe local authorities can and should bear a somewhat greater share of the costs of providing transit service. In Seattle, local taxpayers and riders pay 95% of our operating costs and 50% of our overall capital program costs. We have agreed to pay twice the normal local share for our bus tunnel construction grant and we are not seeking discretionary grants for bus fleet expansion.

We can afford to pay a greater share of the overall cost of providing transit service because local voters agreed to dedicate a 0.6% sales tax to transit and the State Legislature authorized an additional 1.0% dedicated tax on the value of motor vehicles. These dedicated local taxes enable us to proceed with somewhat smaller federal matching ratios and that frees some federal transit funding for work in other communities.

But we should not be expected to finance our tunnel project solely from local sources for several reasons. First, good mass transit service should be a national as well as local goal. Transit is too important to the way of life in our largest cities and the well being of those who depend on it in other areas for the federal government to abandon its role of financial supporter.

Secondly, the federal government shows no signs of withdrawing its financial support of our chief competitor, the single occupant auto. Since the federal government intervenes in the urban transportation market with big tax subsidies for employer provided parking and 90% grants for the construction of peak hour highway capacity, it should also continue its financial contributions to a socially and environmentally preferable form of urban transportation -- public mass transit.

Finally, please remember that Congress responded to President Reagan's request and raised the federal gasoline tax by five cents per gallon back in 1982. We were told at that time that the federal government would spend an additional one billion dollars per year for mass transit construction projects and that cost effective new start transit projects could proceed with federal support. In 1983, our governing board voted to proceed with the bus tunnel project, partly in response to the new federal initiative.

We are now ready to begin construction. A sudden shift in federal policy withdrawing all financial support would lead to the cancellation of our project.

Written Statement of

Paul A. Karas
Commissioner of the City of Chicago Department of Public Works

I am Paul Karas, Commissioner of the City of Chicago Department of Public Works. I wish to express my appreciation for the opportunity to submit this testimony to the Subcommittee.

My testimony is confined to the Federal Interstate Transfer Program. The Chicago region has the second largest share of the Program's unobligated balance. We are very concerned, as are most other transfer areas, about the serious impact on the Program's integrity caused by shortfalls in funding and the recent withdrawal of New York's Westway project. The Program is also threatened by a pending withdrawal in Hawaii and by the Administration's proposal to delay the Program's completion. We wish to highlight these concerns for you and recommend an adequate level of funding to support the Federal government's obligation to transfer areas. First, I will briefly summarize the nature of the Program and the transfer agreements on which it is based.

Program Background

Since 1973 the Interstate Transfer Program has operated to redirect Federal funds to the most useful and efficient transportation investments. It has allowed the withdrawal of nonessential segments of the interstate highway system and the substitution of other local highway or transit projects of equivalent value. It has permitted local planning and development changes to be accommodated without the loss of transportation investment. Transfer areas have been given the ability to meet their transportation needs without building unneeded interstate highway segments. Pursuant to the Interstate Transfer Program over the last 13 years, some 32 interstate trade-ins have been made, in 21 states, acccounting for $8.8 billion.

The Surface Transportation Assistance Act of 1982 amended the Interstate Transfer Program to close it out concurrently with the Interstate construction program by 1990. The program was modified in a number of ways: most of it was put on a formula basis; substitute highway projects were funded from the Highway Trust Fund; the escalator clause which had permitted inflationary growth was removed for transit and highways; and sufficient annual authorizations were made to meet Interstate Transfer contractual obligations by FY1990. The withdrawal deadline of September 30, 1983, was maintained with one segment (New York's Westway Project) under court action given until September 30, 1985, and certain other segments under court action given until September 30, 1986.

The Nature of the Transfer Agreement

The Interstate Transfer Program was intended to be an enticement to areas with planned interstate segments to spend Federal money on more constructive transportation projects than an interstate segment. At the time of program enactment, interstate highway projects for many areas no longer fit regional transportation needs or had generated long-standing local controversies which were delaying their construction. Local officials, however, were faced with the prospect of losing millions and, in some areas, billions of Federal funding if the planned interstate segments were dropped. Their only alternative was to continue to press for a segment construction. Through the Interstate Transfer Program, the Federal Government made an offer to local officials that helped the officials out of their all or nothing dilemma. The offer also helped to speed the completion of the Interstate Highway System.

In essence, the Federal government made an offer to allow state and local governments to withdraw pending interstate highway projects and, in exchange, transfer the project value to other authorized mass transit or highway projects. The underlying incentive of this offer was a value for value trade: funding that would have been available for completion of the interstate project would be available to complete the substituted transit and highway projects. By accepting the Federal government's offer, state and local officials were led to believe that their purchasing power would not be diminished by the failure of the Federal government to deliver funding in a timely fashion. In other words, it was assumed that as interstate segments were withdrawn, appropriations and authorizations would be increased proportionately to meet the needs of the old and new substitute projects that the Federal government had agreed to fund. This assumption was an important inducement for areas to trade in interstate projects. Otherwise state and local officials would have been subject to local criticism of trading certain Federal funding for uncertain Federal funding.

Value Erosion

When the STAA of 1982 eliminated the inflation adjustment for the Interstate Transfer Program, transfer values were pegged at their highest escalated level. Subsequently, the Program fell victim to the ever increasing efforts to reduce the Federal deficit. Since the STAA of 1982, 11 interstate segments valued at $4 billion have been withdrawn. No increase in funding has been made to offset this infusion. Much smaller funding levels have resulted for old transfer area than promised by the STAA. In fact, Interstate Transfer Transit has been cut every year since 1981 for an overall reduction of 66 percent. As a result of shortfalls in anticipated funding, transfer areas' substitute projects are being delayed, costs are increasing and the value of the orginal trade-ins are eroding. The value for value bargain is being undermined.

The Aftermath of the Westway Trade-in

The trade-in of New York's Westway project significantly heightens the value erosion problem. That action added approximately $1.7 billion to the Program's unobligated balance of $4.9 billion. The Program shares of previous trade-ins were reduced by 25 percent. 75 percent of highway funding and 50 percent of transit funding are allocated by a formula based on an area's share of the program. The reduction in program shares caused by Westway proportionately reduces each area's annual formula allocation. It also dramatically increases the competition for discretionary funding. Coupled with the very unlikely prospect of obtaining the necessary increase in appropriations to offset the Westway trade-in, reductions in formula allocations will not be recouped for years. The situation may worsen this year. Hawaii has until September 30th to decide to withdraw an interstate segment worth $716 million. If withdrawn, the Hawaii project will have the same effect as Westway: annual allocations will be reduced, substitute projects delayed, project costs inflated and trade-in values eroded.

The Administraton's Proposal

The Administration proposes to merge the Interstate Transfer Highway and Transit programs and fund both under the Highway Trust Fund (HTF) at $500 million per year. The impact of this cut on existing transfer areas is even more severe because the $500 million must also accommodate additional substitute projects resulting from the Westway transfer noted above and possibly a Hawaii transfer.

Also the transfer program would not be completed until 1998. This would drastically increase value erosion.

The Administration' proposed merger would also add Interstate transfer transit funding under the highway obligation ceiling. Thus, even if the authorization from the Highway Trust Fund were increased to fund both Interstate transfer highways and transit, transfer states would have to accommodate another program under their obligation ceiling. This would hamper the transfer areas' ability to obligate all apportioned and allocated funds, unless transit substitute funds would be exempted from the ceiling.

Recommendation

To complete the Interstate Transfer Program by the STAA of 1982 target date of September 30, 1990, $263 million and approximately $1.2 billion would have to be appropriated annually for transit and highway respectively. Transit's 1986 funding level is $210 million. Highway is funded at only $694 million. Obviously to meet the target date, significant increases in appropriations and authorizations would be necessary. Though such increases would be consistent with the nature of the program and its value bargain, it would be contrary to the current budget cutting mood of Congress. Keep in mind, however, that had the transfer areas stayed with their interstate segments, the funding would have grown to cover project completion.

Funding is not growing to complete our substitute project. We, therefore, urge the Committee to provide the Interstate Transfer Program as much funding as possible.

We urge that the escalator clause removed by the 1982 STAA Act be reinstated by the 1986 Act in order to protect the value of Interstate trade-ins and minimally honor the original, value for value, trade-in agreements.

We also urge that interest cost on interim financing be included as an eligible re-imbursable Program cost item. This is needed to keep construction schedules on time and within budget.

Finally, we urge the Committee to reject the Administration's proposal for the reasons already stated.

Once again, we thank you for making this forum available to present our views.

THE GREAT TRAIN ROBBERY

Twenty Years of Mass Transit Subsidies Have Bilked Taxpayers

TONY SNOW

It has now been 23 years since the federal government got into the urban mass transit business. During this period, it has forked out more than $43 billion to metropolitan rail and bus lines. Roughly four-fifths of the money has gone for capital expenditures—primarily for construction of rail systems and for buying buses and rail cars—with the remainder consisting of operating subsidies for transit systems in chronic deficit. The result has been a colossal failure of social engineering, and one of the most scandalous abuses of the taxpayer in our nation's history.

Like so many projects by the federal government, subsidies for mass transit have failed to help their intended beneficiaries. Ridership on public transit has declined by 11 percent since the federal subsidies began—from nine billion annual trips in 1963 to about eight billion in 1985. Today public transit accounts for only 3.5 percent of all trips in urban areas, and the public has fled mass transit in the one market federal programs were supposed to serve best—the rush-hour commute. Just under nine percent of all commuters used public transit in 1978. That figure has fallen to six percent since then, even though the public subsidy per transit ride has increased from five cents to 27 cents.

Meanwhile, a substantial portion of the federal funding went to transit systems whose construction and design problems would make even a defense contractor blush with shame.

New York has spent nearly 20 years building a tunnel that connects Manhattan's Upper East Side with an urban moonscape of empty warehouses and railyards in Queens. The 63rd Street tunnel was supposed to cost $154 million to build and was scheduled to begin service a decade ago. Instead, it has cost taxpayers $800 million so far, and probably will gobble up another $250 million to $300 million before its completion. Experts now expect the tunnel to carry about 220 passengers a day. For the amount the public will spend on the tunnel, the government could have bought each potential rider of the system 45 to 50 Rolls Royces.

Miami's 20.5-mile Metro Rail system cost $1 billion to complete ($210 million above budget), opened two years late, and carried about 16,500 passengers a day during its first year of service. The city could have purchased each passenger a $45,000 condominium for the cost of building the system—and would have been able to throw in a subcompact car with the first year's operating losses of $100 million.

Designers of Washington's Metro, a subway/heavy rail system, said the 101-mile project would be ready for full operation in 1979, and would cost about $2.5 billion to build. So far, the 60 miles in service have cost taxpayers $6 billion to complete, and most experts agree that it will take another $6.5 billion to finish the job. For the Metro's capital expenditure so far, Washington could have purchased 55,000 to 60,000 buses or a BMW for each of its daily passengers—and that's not taking account of annual operating deficits, which could reach $1 billion a year by 1990.

Detroit has spent $210 million so far for an incomplete People Mover system, and has been forced to cut back on bus service in order to finish building the elevated rail project. For the same $210 million, Detroit could have purchased 1,000 new buses, 12,000 vans for transporting the poor, elderly, and handicapped, or a new subcompact auto for every low-income household that now lacks a car.

The federal government first got involved in mass transit in the early 1960s, when Congress appropriated slim sums for bus lines as part of the housing budget. Lyndon Johnson formalized that role in 1964 by signing the Mass Transit Assistance Act, which was designed to bail out some struggling urban transit systems with grants for capital improvements. The authors of the legislation didn't want to pay the operating expenses (salaries, maintenance, marketing, security, etc.) for transit systems; they only wanted to make it easier for cities to purchase needed mass transportation hardware, like buses and trains.

They knew that ridership on mass transit was declining almost everywhere—nationwide ridership fell from 24 billion annual rides in 1947 to about nine billion in 1963—and that transit companies were folding by the dozens, especially in smaller towns, while big city systems had

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TONY SNOW *is deputy editorial page editor of* The Detroit News.

begun to feel the pinch of unusually small profit margins. They also knew that 1963 marked the first year that the public transit industry as a whole had been unable to cover its operating costs with passenger fares.

Nevertheless, they believed that public-sector monopolies could succeed where private-sector monopolies had been failing, without making significant changes in the way transit systems conducted their business. This was an extraordinary belief, given the changing economics of housing and transportation. Transit agencies for decades had operated as if every city were New York, running their bus or train systems like spokes from a wheel hub. But New York no longer provided a sensible model for most cities. People across the country had moved from central cities and nearby exurbs to suburbs far from the "spokes" on the transit route maps.

Populations that once had been concentrated near downtowns now were dispersed in outlying areas. As a result, "travel volumes"—the number of commuters who used the old radial routes during rush hour—declined dramatically, and many systems no longer carried enough passengers to make a profit from a "traditional" bus route, let alone a rail line, which required twice the travel volume to break even.

As metropolitan areas began to sprawl, and suburban "nodes"—shopping/office/business/recreation centers—began to replace old downtowns, workers stopped working in cities, and began increasingly to work in the suburbs. Since few transit agencies were flexible enough to provide service for these "lateral commutes," people had to find an alternative.

The family car was the answer. Highway traffic volumes increased twice as rapidly as urban populations throughout the 1940s and 1950s—a trend that accelerated further after Congress approved money in 1956 for the Interstate and Defense Highway System. Cheap gasoline, improved highway systems, and affordable automobiles made it simpler and more economical to use the family car than to wait for the next bus or train. Personal automobiles quickly surpassed all other forms of transit as Americans' primary means of getting around.

Nevertheless, Congress thought it could reverse these trends by encouraging cities to build new bus and rail lines. Most "experts" favored flashy rail systems—in essence, rail-bound airplanes without wings—modeled after Japan's bullet trains. They thought commuters would find the vehicles irresistible because they would have the ability to zip riders from stop to stop more swiftly and comfortably than, say, a 1963 Bel Air. "The greatest felt needs at the present time," said the Fitch report, a document prepared by the Institute of Public Administration for the Kennedy Administration, and an important source for justifying federal participation in local mass transit, "are for system improvement, modernization and extension of present rail rapid-transit systems and construction of several new ones, and facilitation of bus operation and replacement of obsolete buses. . . ."

In other words, Congress wanted to spend money modifying Americans' behavior. The reasons for this were as much aesthetic as anything. Planners wanted to reshape the American landscape. They wanted to "modernize" the cities by turning every town of any consequence into a miniature Manhattan, teeming with gleaming skyscrapers linked by futuristic rail systems. The transit lines were the key element in the plan. Then people would come back to public transportation; they would reverse the decades-long flight to the suburbs. Smoky cars and concrete highways would give way to glass towers, monorails, and other monuments to the genius of modernity.

Uncle Sam's Generosity

Federal involvement in mass transit was institutionalized with the creation of the Urban Mass Transportation Administration (U.M.T.A.) under President Johnson in 1968. But like so many Great Society programs, the most dramatic expansion took place under Presidents Nixon and Ford. Washington's share of new construction expenditures rose from 25 percent in 1964 to 80 percent in 1974. In 1974, the federal government began picking up half the tab of operating budgets as well.

These provisions make most new systems "cost free" for cities, since state governments generally pick up a large portion of the remaining construction and operating expenses. The result is that cities pushed for expensive rail systems they would never have built if residents had to come up with the money themselves. Now, with much of the equipment underused, the cities are left with unnecessary and very expensive capital stock, not to mention salaries for drivers and other employees who work less than eight hours a day.

Miami could have bought each passenger a $45,000 condominium for the cost of building its Metro Rail system—and could have thrown in a subcompact car with the first year's operating losses.

Congress also has built in a bias toward expensive proposals. It agreed to pay 100 percent of the cost of new buses, for instance, but refused to pay for the rehabilitation of older vehicles. And it encouraged cities to plan and build ambitious rail systems by slashing subsidies to those that didn't.

For example, U.M.T.A. cut the federal portion of Houston's trans-planning budget for $105 million to $5 million in 1982, after local voters rejected a $2.3 billion bond issue for a rail system. The local vote perplexed many in Washington, including Senator Lloyd Bentsen (D-TX), who reportedly supported the project not because it made any particular sense, but because it meant that billions of federal dollars would be going to Houston rather than somewhere else.

This incentive structure dramatically changed the mass transit industry in many ways that many cities have since come to regret. Between the 1920s and the 1960s, not a single city in America built a light rail (trolley) system, and only one (Cleveland) completed a heavy rail system. There was a good reason for this: rail systems are incredibly costly, both to build and to operate, and during this period dozens of rail systems were going out of business. But since Uncle Sam's entry into the industry, six cities have built light rail systems, six have built heavy rail systems, and 21 cities are getting money either to plan or build rail lines of some sort.

Unfortunately, many of the cities that were "lucky" enough to get money for new transit systems have begun to curse their good fortune. Mass transit for them has become an unbearably costly dream.

Detroit's downtown People Mover, which was supposed to begin operations this year, already has exceeded its original $137 million cost estimate by $87 million, primarily because of poor design and construction. Every curved portion of the track—which, supported by concrete columns, looks like an amusement park monorail—must be replaced because the cables that are supposed to provide structural integrity for the track have ripped through their restraining walls. Many other beams must be patched up or replaced because they have begun cracking. Altogether, 132 of the system's 178 beams have been found defective in one way or another.

Detroit's construction disasters pale by comparison with those of New York City's 63d Street Tunnel. According to the U.M.T.A. auditor general's report last year, one section of the main tunnel was riven with "a significant crack" that jeopardized the structure's integrity. Auditors also reported that transit officials had failed to test nearly 200,000 cubic yards of poured concrete. Much of that concrete, U.M.T.A. noted, was too weak to meet specifications, and the walls in many sections were poured improperly. If the tunnel ever is to carry trains and passengers, those sections will have to be rebuilt or repaired.

In auditing the 63rd Street project, U.M.T.A. could find no record of the receipt or use of 48,000 cubic yards of concrete for which Uncle Sam had been billed. This doesn't mean that someone actually walked off with the stuff; only that no one knows what happened to the missing concrete, which would be enough to build 45,000 backyard patios or fill two-thirds of Giants Stadium. These kinds of "oversights" have led to a series of state and federal grand jury investigations into the behavior of project managers, contractors, and subcontractors.

You'd think that Congress would have called for intensive investigations into mass transit fraud by now, in hopes of stopping questionable construction practices and saving taxpayers' money. But Congress not only has ignored these failures; if anything, it has become even firmer in its support of public mass transit, which has been a boon to both unions and construction businesses. Republicans as well as Democrats have long wanted to keep pouring the gravy.

Perhaps the best example of *Railpolitik* came during the dying days of President Ford's 1976 campaign. U.M.T.A. administrator William Coleman sent letters to many mayors committing the federal government "in principle" to providing enormous sums for future mass transit projects. Detroit politicians still speak of the "$600 million promise," overlooking the fact that it contained enough conditions to prevent its ever being fulfilled, and Buffalo began work on a light rail/subway system on the basis of a similar "commitment" to $269 million.

$20 Billion Waste

When Ronald Reagan tried to cut U.M.T.A. spending in 1982, Congress rebuffed him and instead approved a series of new starts. Senator Paula Hawkins (R-FL) was instrumental in securing critical funds for the Miami project while Representative Carl Pursell, a Republican representing an affluent suburban area outside Detroit, deliberately rejected administration requests not to fund Detroit's People Mover.

The same thing is happening this year. The administration has proposed cutting mass transit aid and restructuring grants programs to encourage cities to offer more realistic and less expensive transit proposals. Representative Bud Shuster (R-PA), who ostensibly is sponsoring the bill in the House believes, according to an aide, that the measure is "dead on arrival." Representative Shuster, the aide continues, wants things to remain as they are.

Similarly, Senator Mark Andrews (R-ND), chairman of the Senate transportation subcommittee, has led a furious fight to protect all the transit proposals now under consideration, including three that U.M.T.A. says can't possibly produce enough ridership for revenue to justify their construction costs. The expensive projects, he says, are "investments in the future."

But investments for whom? Judging from the pattern of transit spending, the investment is for politicians who happen to sit on the House and Senate committees charged with approving transit projects. All 21 cities now receiving federal construction, planning, or design money have at least one representative on the House or Senate appropriations committees, the House Public Works committee, or the Senate Banking and Urban Affairs Committee. Some should never have received consideration, let alone money.

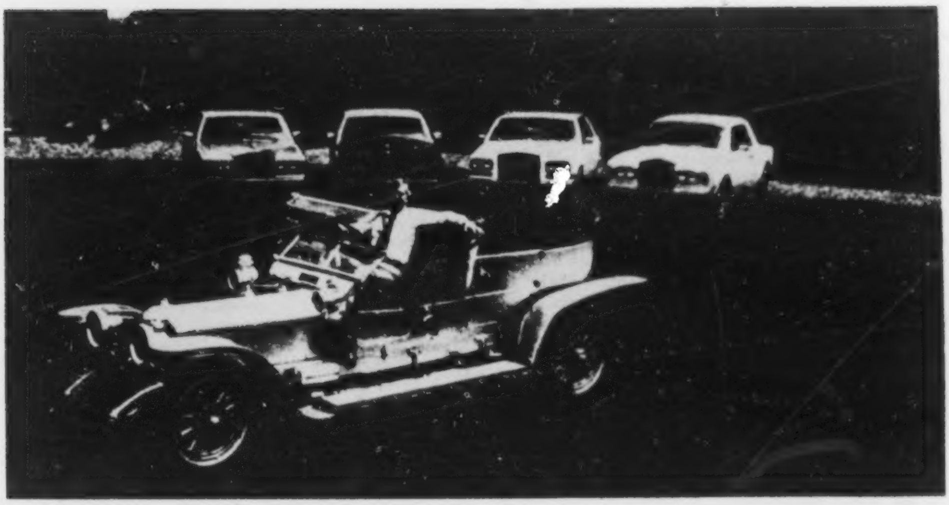
Uncongested Buffalo hardly needs a subway, but a system that opened in 1983 still retains the staunch support of Republican Representative Jack Kemp.

San Diego has a light rail line that has been able to run on nearly a balanced budget—passenger fares cover 80 percent of operating revenues. The only problem is that the system, pushed through Congress by Republican Senator Pete Wilson, effectively shut down a bus line that covered the same route, carried the same number of passengers—and turned a profit.

Sacramento is in the process of building a $130 million light rail system that at most will carry 2,000 passengers a day more than the bus system already in operation. The city probably could achieve the same ridership gains by purchasing 10 buses at about one percent of the cost of the rail system.

And several other cities—including Jacksonville, San Diego, Milwaukee, Minneapolis-St. Paul, Detroit, and Honolulu—are receiving money, even though average commuting times are short and the need for rail systems virtually non-existent.

Altogether, politicians have approved funding for projects that, if completed, would cost taxpayers $20 bil-



For the amount taxpayers will pay for the 63rd Street tunnel, the government could have bought each user 45 Rolls Royces.

Courtesy of Rolls Royce Motors

lion just to build, and given the history of construction expenses, probably would consume $20 billion to $60 billion. But construction costs are only the tip of the financial iceberg. The real horror story starts when the transit systems start running.

Miami Disaster

Every city now operating a new transit system, with the possible exception of Atlanta, has been sandbagged by hopelessly inaccurate ridership projections.

San Francisco's BART, for instance, was supposed to carry 258,000 passengers a day by 1975; it moved about half that many people then, and carries about 200,000 daily passengers today. Melvin Webber, a designer of BART, argues that the project was a tremendous mistake, and that the Bay Area could have generated the same patronage by means of buses that would have cost only one-fortieth of what the subway/rail system cost.

Washington's Metro loses almost $300 million a year on operating expenses alone. The 60-mile segment now in operation was supposed to carry about 760,000 people daily by 1990; it now conveys just 321,000 passengers each day, 15 million a year fewer than the metropolitan bus system.

But ridership isn't the only problem. Metro can blame some of its problems on the very first piece of transit legislation, the Urban Mass Transportation Assistance Act of 1964. That bill said that any city assuming responsibility for a transit system must honor all existing transportation union contracts, taking care to preserve all the workers' "rights, privileges, and benefits (including continuation of pension rights and benefits) under existing collective bargaining agreements or otherwise . . . " Public agencies under this stipulation not only wouldn't be allowed to reduce workforces, but also would have to rehire laid-off employees at the first opportunity, or offer them free additional training or retraining.

This provision, now known in the transit industry as Section 13 (c), virtually guaranteed that unions would gain bargaining leverage in every urban transit system. George Hilton of the University of California at Los Angeles recently noted that "the statutory authority essentially gives the unions a veto power over capital expenditures and demonstration expenditures." It also means that union privileges assume greater priority than considerations like efficiency.

The result has been a bonanza for transit workers, whose wages generally lagged behind national workforce averages in the years before Uncle Sam joined the transit industry. Since 1964, transit industry wages have risen an incredible 25 to 40 percent more rapidly than average American wages, and the most exhaustive studies of union involvement indicate that declining labor productivity and high pay account for 50 to 75 percent of the operating deficits in American transit systems.

Miami's Metro Rail exhibits almost all of the problems with federal transit support. When local officials were seeking federal support of the Metro Rail, they hired experts who developed incredible scenarios for the project. The line, they said, would increase total mass transit ridership in Miami from its 1975 level of 190,000 passengers a day to 250,000 passengers by 1980; 650,000 in 1985; and 730,000 in 1990—a 384 percent increase in ridership over 15 years.

Planners jazzed up the estimates by noting that the estimates above were "reliable only at the 50 percent level." Their more cautious forecast (reliable at the 80 percent level) projected daily ridership of 445,000 by 1990.

Unfortunately, these scientific-sounding predictions were grounded on hilariously untenable economic assumptions. Gasoline, for instance, was supposed to cost $2 a gallon. And Miami's population was supposed to grow along the rail line route—instead of out to the southwest of the line.

Robert F. Patricelli, an U.M.T.A. administrator for Gerald Ford, praised Miami's plans in 1976, because he believed the country could ensure Metro Rail's success by restricting future highway construction and thus forcing "transit dependent" groups like the poor and elderly to ride the train. He also believed the system would generate a downtown office construction boom that would create a natural clientele for Metro Rail.

Perhaps the most damaging assumption, however, was that the system would be built on budget. The Metro Dade Transportation Authority wanted to ensure the rail line's success by creating a huge "feeder system" in which buses would carry passengers to Metro Rail lines quickly and efficiently. The authority planned to purchase 1,000 new buses for the feeder line, including a significant number specially equipped to carry the handicapped.

They also planned to make the system convenient for carpoolers by setting aside 12,000 free parking spaces in eight lots along the system. And once at the station, people would have to wait no more than three minutes to catch a rush hour train.

Construction overruns forced the city to cancel all new bus purchases—its aging, 405-vehicle fleet includes some clunkers that are more than 20 years old—build only three of the eight parking lots and 5,037 of the 12,000 parking spaces, and charge for parking, while doubling train fares and increasing bus/train fares by 150 percent. People who park and ride now can pay up to $4.25 a day—not $1—to ride on a system on which peak hour waits on platforms can run as long as 12 to 15 minutes—while gasoline gets cheaper every day.

Not surprisingly, the project has been a disaster. The system, which was supposed to carry 202,000 passengers a day now carries only about one-tenth that volume. The bus system continues to decay (and lose ridership); and Metro Rail, as we noted above, is likely to lose $100 million or more in its first full year of operation. Although local officials convinced voters in 1984 to approve a $62 million bond issue to pay some of the construction cost overruns, they're not likely to ask for more. Elderly voters, who comprise 20 percent of the Metro Dade County area, remain adamantly opposed to new taxes, and groups like the Urban League have said they'll oppose future transit spending because it doesn't serve the needs of Miami minorities.

Thriving Suburbs

Politicians often argue that it's unfair to criticize operating deficits in these cities because no mass transit system in the world runs a profit. Besides, they claim, these systems generate economic development, reduce traffic congestion (and attendant evils like air pollution), and provide mobility for the poor, elderly, and handicapped.

These claims are mutually inconsistent. If a transit system stimulates urban development, for instance, it's also going to increase traffic congestion—unless each and every new worker or shopper or client uses mass transit to move from the suburbs to the new development in the city. Similarly, it's impossible to achieve significant new business development in urban areas without displacing the poor who already live there, thus increasing their economic problems and generally lengthening commuting trips.

These claims don't stand up on their own either.

Although elected officials and civic boosters preach the virtues of transit-as-a-development-tool, economic literature on the subject indicates that rail construction has no effect on land development—that is, it neither attracts nor chases away a significant number of new businesses. Transit's "development effect" more often can be traced to the fact that transit lines were designed to serve already growing areas—or, as in the cases of San Diego, Sacramento, Buffalo, Baltimore, and Washington, to serve already popular bus lines—than the fact that the lines themselves generated retail, commercial, or industrial development.

But more significant is the fact that new transportation systems have not achieved what many planners considered their primary goal: to reverse the flight to the suburbs. In fact, that flight has accelerated over the last 23 years. A few quick examples: More than 18,000 office jobs in the San Francisco Bay area have moved to the suburbs in the past two years. Maryland and Virginia cities around Washington, D.C. are creating jobs three to six times as quickly as the District. The Detroit suburb of Southfield now has more occupied office space than the Motor City. And northern New Jersey should have more office space and jobs than all of Manhattan by the end of the century.

Most of this development sprouts up not along rail lines, but along highways. Tysons Corner, a shopping/office area outside Washington, is typical. What was a pasture 20 years ago is now a thriving commercial center that employs 25,000 people. But Tysons Corner has no Metro stop. Los Angeles, Houston, Dallas, and Orange County—all supplicants for heavy rail projects—all have similar centers served by highways.

Transit planners meanwhile behave as if nothing has happened. Despite the obvious fact that most commutes are suburban commutes, and that the growth areas for most metropolitan areas lie not along the old radial corridors, planners continue to devise systems that begin or end in central cities. An astonishing 80 percent of all rail lines still have one or more "trip ends"—final destinations—in central cities.

As for traffic congestion, San Francisco had more of it after BART than before. Washington has the same problem with Metro. These developments reaffirm what transportation professionals call The Law of Traffic Congestion. Just as nature abhors a vacuum, so do drivers abhor an empty highway at rush hour. As people abandon their cars to ride a bus or train, others who might not otherwise have traveled the roads join the rush, thereby adding to the congestion in the city, and now in the suburbs. Every reasonable study available indicates that the congestion argument is bogus.

This brings us to the most contentious argument of all, that mass transit subsidies represent a high-tech form of welfare spending. Transit, say politicians eager to preserve federal funding programs, provide the best hope for moving America's poor around the cities. If you try to cut out mass transit money, you effectively condemn the helpless to life on the streets.

This is hogwash. While poor Americans make slightly greater use of mass transit than the population generally, the difference isn't significant. In fact, poor Americans go to extraordinary lengths to avoid using mass transit.

A majority of the very poor, for instance, own automobiles. More than 54 percent of those with incomes below $5,000 owned at least one automobile in 1978-79, the most recent years for which figures are available. If anything, those ownership figures have increased over the past eight years. These statistics are especially astonishing when you consider that auto payments gobble up 20 to 40 percent of the disposable income of these poor households, while rent takes up another 40 to 50 percent.

The poor also make disproportionate use of taxis, which generally are more expensive than transit. Low income riders accounted for only about 12 percent of all transit rides (public and private) during the 1970s, but took nearly 27 percent of all taxi trips.

Often the poor aren't even served by the new transit system. In Washington, D.C., politicians and editorialists frequently trot out the need to complete construction of the Green Line subway into the low income areas of Anacostia—especially when the federal government makes noises about cutting funding for Metro. Every time that funding comes through, however, the money gets diverted to other lines—without obvious complaint from Capitol Hill or the *Washington Post.*

Other cities have gutted comparatively popular bus routes in order to bail out expensive rail systems. Jacksonville took $4.6 million out of its bus budget to help complete a seven-mile People Mover that runs between an empty railyard and the city convention center. Detroit has to take all its new bus money and apply it to its failing People Mover. And Miami put off all its bus purchase plans in order to bail out the Metro Rail.

Given the fact that a majority of the poor rely on automobiles, congressmen interested in helping the needy should put an end to glitzy rail systems and eliminate barriers to automobile ownership—restrictive licensing laws, protectionist legislation, high excise taxes, etc.

The same sort of analysis applies to the elderly and handicapped, who use mass transit, automobiles, and taxis in the same proportions as the rest of the American public.

Virtually everything you normally hear about mass transit is not true. New systems haven't increased development, reduced traffic congestion, or helped the helpless. They've merely cost a whole lot of money.

The reason for this failure, and the reason why future projects seem unlikely to do better, is that they are based on the belief that people ride mass transit in order to be entertained—amazed by sleek, state of the art vehicles and tracks—rather than to get quickly from place to place.

Unfortunately, this assumption is wrong. Polling data show that riders would rather wait inside their car than wait around at a transit stop—normally the margin of preference runs 3 to 1 or 4 to 1, but gets as high as 10 to 1 for people actually waiting for buses and trains—and would rather stop in their own vehicles than in a bus or train.

Planners wanted to modernize the cities by turning every large town into a miniature Manhattan, teeming with gleaming skyscrapers linked by futuristic rail systems.

Nevertheless, every new transit proposal on the boards relies on new systems that involve complex feeder systems—and hence considerable transfer and waiting times. When authorities in Washington, Miami, and Detroit tell you that their projects will work once these feeder lines have been built, don't believe them: the increased waiting time will only reduce potential patronage.

The fact is, workers aren't as snobby about cars and internal combustion engines as planners and politicians are. People like their cars, as any survey of your local expressway will show. Moreover, these "transit systems," like private taxi and jitney services and unlike public mass transit, generally run on balanced budgets.

The transit dream has failed because people preferred suburbs to cities and cars to buses and trains. In short, America's transit experiment relied on faulty psychological assumptions and wildly unrealistic economic guesses. Rather than shoveling more money into systems like those in Miami, Washington, Detroit, and a host of other cities, Congress should cut its losses and admit that it's spent 23 years moving in the wrong direction.

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"The Cost of Providing Peak and Base Transit Service: An Analysis of Public and Private Operating Costs"

Introduction

Private sector provision of public transportation services through contractual arrangements has emerged as an important issue for transit policymakers and managers. The Urban Mass Transportation Administration has recently published a formal policy on private enterprise participation in public transit service delivery and is vigorously promoting the concept and its utilization.

There are several reasons for UMTA's desire to involve the private sector in the provision of public services. Between 1965 and 1983, transit unit costs increased at more than double the rate of inflation. These costs are attributable to:

Excessive labor compensation - annual compensation forpublic bus drivers is as much as 50-100% higher than comparable public or private employees. (Urban Institute).

Declining labor productivity - in 1983, it took 7% more labor to produce a vehicle-mile of transit service than it did in 1975 (Don Pickrell, Harvard University).

Chasing suburban riders - attempting to gain ridership by serving the peak demands of those who take longer, more costly trips on less dense routes.

Monopoly structure of the transit industry - there is no "market pressure" to ensure maximum efficiency and productivity.

It is UMTA's well-founded belief, that contracted operation of public routes by private transit operators can save taxpayers money. Universal application of this theorum is difficult to make, however, as there are and always will be, cost-effective public providers of transit service to refute this "universal" claim.

The evidence of cost-savings attendant to the utilization of the private operators is beginning to mount, however. Claims have been made by noted researchers of savings on the order of 20-50% of cost being realized by public agencies who have elected to contract for service with private operators. Although many public transit agencies and transit labor unions have resisted or opposed service contracting, it is becoming an increasingly prevalent method of service delivery. A recent national survey conducted by Roger Teal of the University of California at Irvine found that 23 percent of all individual transit services, representing 7 percent of all revenue-vehicle miles, are currently being provided through private sector contracting.

Peak hour services have been targeted as particularly good targets for contracting. It has been generally accepted in the transit industry that the cost of providing peak hour transit services is significantly more than the cost of providing base levels of service that are tailored to an almost uniform travel demand profile, due to poor labor utilization.

And yet, there are many public transit agencies, who have no more than a guess as to what their peak and base service costs are on a route-by-route basis. How can transit managers begin to improve their performance, internally or through contracting, without knowledge of the cost of providing service?

It is difficult to say specifically which peak routes within a public transit agency are prime candidates for contracting without first developing a usable, peak-base cost-allocation model. First, there is no accurate way to estimate one's own cost of providing service without using an allocation model. Second, without knowledge of internal costs there is little ability to determine an estimate of cost-savings attainable through contracting. Third, without both public and private cost estimates there is no basis for "splitting" routes into joint-operated ventures, with public(base) runs and private(peak) runs, as some transit managers and policymakers suggest.

There are several reasons for public transit agencies to begin costing their own public operations and estimating the costs of private sector provision of service. First, a public agency which costs its own service and compares it to estimates of private sector costs of service provision will establish which routes, or portions thereof, hold potential for cost-savings. This estimation of cost savings potential will enable a public agency to solicit bids and to be reasonably confident that a significant savings will in reality be accrued.

Second, the possibility of using service contracting as a means to provide historically public union "owned" work is almost certain to create some labor concerns and complications. A public agency with estimates of savings potential in hand should feel reasonably comfortable that private sector contracting would be worth the labor problems that could occur.

Third, private operators have been known to bid below cost in an effort to secure a contract which they believe will be in their long-term interests. In the short term, however, the private operator may seek a rate adjustment, may cut corners to the detriment of service quality, or may be forced to terminate its involvement, resulting in service disruption and political embaressment for the public agency. These problems can be avoided by requiring detailed cost estimates from bidders to justify "suspiciously" low bids.

Last, by costing private and public sector service costs, public agencies can identify those factors which most negatively affect service costs. With this knowledge, public agencies may alter their service plans or bid requirements in order to reduce their costs, public or private.

With these reasons in mind, this study endeavors to demonstrate a relatively easy process for determining the costs of typical transit routes on a peak and base level. We also hope to provide supplemental data for use by Dr. Anthony Tomazinis of the University of Pennsylvania. Dr. Tomazinis is conducting a similar study on peak hour costing of selected public transit routes in Philadelphia, Pennsylvania (SEPTA) and Wilmington, Delaware (DART).

This study specifically examined selected publicly-operated routes/costs and competitively-bid, private contracted routes/costs in the following cities:

Austin, Texas
    1) Capital METRO (Public)
    2) Kerrville Bus Lines (Private)

Dallas, Texas
    3) Dallas Transit System (Public)
    4) Trailways Commuter Transit (Private)

Houston, Texas
    5) Metropolitan Transit Authority (Public)
    6) National Transit Services (Private)

We also elected to examine the costs of peak and base runs in a non-competitively-bid, contracted public transit system:

Phoenix, Arizona
    7) Phoenix Transit/American Transit Corp. (Private)

The routes selected for examination were chosen for their high peak/base ratios for each respective system, and their "assumed" potential for successful contract operation.

The costing methodology, the "three-variable" cost-allocation model, used is familiar, and easily applied for most transit properties. A model's ease of use is an important consideration in the estimation and accounting of peak and base service costs. If public agencies are to be expected to "cost" their services on a regular basis, some time savings may be gained by using a two-tiered approach. A combination of average costing and temporal variation methods would be an appropriate way in which to "cost" peak and base services in a "first-tier" evaluation.

Based upon a ranking of costs derived in the "first-tier" examinations, transit managers can then select the most expensive routes for a more detailed, "second-tier" examination of the fixed and variable costs of their services.

Cost-accounting and cost-allocation modeling will become more important to transit managers, as transit industry costs continue to escalate at faster than inflationary rates, and as federal/state budget deficits continue to impact the appropriation of subsidies.

Review of Costing Methods

Nearly every transit system has a staff of transit planners devoted to the long and short range planning of transit services, but very few have a staff of cost accountants monitoring the performance of their system.

As with transit planning methods, costing techniques vary widely. Oddly, no one standard has emerged as the single, best model for estimating the costs of providing transit services. With varying degrees of reliability, the industry has used methods as gross as average costing (i.e. systemwide cost per mile or hour), to methods as detailed as reviewing route schedules, driver assignments and payroll records.

All costs considered in this study of the peak and base costs of transit services are either capital or operating expenses. Capital costs refer to expenses associated with long-term capital acquisitions, such as buses and maintenance facilities. Capital items have a useful life extending over more than a single year. The depreciation of capital assets will be allocated by the model on the basis of the number of peak buses. Depreciation, in order to be comparable with the private sector, was estimated using the actual capital inventories of the transit agencies and the shortest allowable depreciation schedule allowed by the IRS given the appropriate property classification.

Operating costs are those expenditures that are made during a single year. For most public bus systems, capital outlays are relatively modest in comparison to operating expenses, generally constituting from 10-20% of the fully-allocated cost of operating a service. For most private operators (those involved in 3-5 year contracts with public transit agencies), 20-30% of the fully-allocated costs of service provision are generally attributable to capital expenses.

Public agencies are being asked by policymakers to consider using private operators who can reduce public capital needs by providing vehicles, as well as operating and maintenance personnel. Therefore, accurate cost-allocation modeling, which includes capital costs, is paramount to determining the "true" estimated costs of service provision. But, from the perspective of the public transit operator the continued subsidy of capital and operating expenses has enabled public agencies to ignore the abilities of, and the cost-savings provided by, the private sector, since the federal government will assume 80 percent of the capital costs, and will only assume up to a maximum of one-half of the operating deficit. Right or wrong, public transit agencies have viewed this subsidy as a way to legitimately "internalize" their operations.

This view of subsidy may change, however. UMTA consideration of proposals to allow the capital costs of vehicle provision in contracted service by the private sector has been positive. Therefore, our efforts in cost-allocation went beyond traditional operating cost applications to include the depreciation of capital assets.

Given the potential for the complete withdrawel of the Federal government from the subsidy of transit operating costs, expected reductions in Federal capital assistance, and the potential for more flexibility in dealing with the capital costs of contracting, the importance of fairly allocating cost will be dramatically increased.

Cost allocation models were originally developed to disaggregate system costs into individual route expenditures and to estimate incremental changes in the overall system. The costing method used in this study is the "three-variable" cost-alocation model, which is the easiest to understand and the most readily adaptable to the level of detail comensurate with the typically available data.

Transit costs are generally estimated on the basis of one or more key operating statistics. The total cost/expense of the transit system for a selected time period (i.e. a month, quarter, or year) is divided and assigned to each individual route in the system. The key assumption of this approach is that each expense item can be proportionally assigned or allocated to specific operating statistics associated with each route.

The following operating statistics, or "three variables," are used to analyze routes in the cost-allocation model:

vehicle-hours
vehicle-miles
peak buses

The allocated operating and capital costs are then summed and divided by the most closely-related operating statistic (i.e. maintenance cost divided by vehicle-miles) to arrive at a unit cost. These unit costs then comprise the coefficients of the cost allocation model.

Many researchers have concentrated on the differences in cost for providing service by time of day or day of the week. We have elected to concentrate upon the differences in cost of peak and base service upon the basis of vehicle deployment.

We conducted our analysis of peak and base costs using systemwide, average expenses allocated to their appropriate service categories, and detailed analysis of "block" summaries, on a run-by-run basis.

Cost-Allocation Methodology

The first phase of the study was primarily an information gathering effort. Route schedules provided much of the information as to the deployment of vehicles and operators on a run-by-run basis. Upon visually examining a run-by-run display of the duration of each run, peak and base assignments were made. Single routes were split into two individual routes, a peak and a base, based upon vehicle deployment, not on the basis of peak and base definition by hour. Unlike most transit properties who define the peak on a time basis, i.e. vehicle-hours supplied during the 6 a.m. to 9 a.m. period, and/or the 3 p.m. to 6 p.m. period, the peak and base routes were defined on the basis of vehicle deployment. The key assumption is that uniform travel demand can be handled by uniform deployment of vehicles throughout the day, and peak travel demand prompts peak vehicle deployment. Peak vehicle deployment can be characterized by either, or both, morning and afternoon runs with a time spread between of at least five hours (from the start of the morning run to the start of the afternoon run). By splitting the selected routes it was possible to allocate systemwide expenses to the "three-variable" cost model, including capital, to peak and base.

The basic concept underlying the cost allocation methodolgy is that the cost of a route or service is a function of a few resource requirements, such as vehicle miles, vehicle hours and peak vehicles. The cost allocation model takes the form:

$$C = Uh(Vh) + Um(Vm) + Uv(Pv)$$

C = cost of route
Uh = unit cost per vehicle-hour
Vh = vehicle hours of route
Um = unit cost per vehicle-mile
Vm = vehicle-miles of route
Uv = unit cost per vehicle
Vv = vehicles used on the route

The unit costs were found by completing three tasks:

1) Assign each individual expense in the system financial statement to one of the selected resources: vehicle-miles, vehicle-hours, or peak buses. Expenses were assigned to arrive at the appropriate unit costs:

    Vehicle-Hours
    - Operations Expenses
    - Insurance Expenses

    Vehicle-Miles
    - Maintenance Expenses
    - Fuel-Oil-Tires Expenses

    Peak Buses
    - General and Administrative Expenses
    - Depreciation of In-service Vehicles
    - Depreciation of Spare Vehicles
    - Depreciation of Capital Facilities

2) Summing the expenses assigned to each route on the basis of its resource consumption to obtain the overall cost per day assigned to the route.

3) Dividing the overall resource cost per day by the quantity of the resource used during revenue-hour operation. This calculation produces the unit cost of the resource.

Capital depreciation was calculated from actual inventories provided by the transit agencies studied on an annual basis.

Base services were allocated their share of depreciation expense throughout a 360 day year to arrive at a unit cost per day. Peak services were allocated capital depreciation on the basis of a 255 day year. The key assumption being that a transit property would not have as many spares buses, or would have smaller facilities, if it were not operating peak services. From the cost per day estimate, the cost was spread throughout the appropriate revenue-hours of peak or base service.

Realistically, peak services are slightly understated and base services slightly overstated in this study, because the calculation of the finer effects of peak labor deployment were deemed time prohibitive. But, as this effort is a demonstration of a modified "first-tier" examination of peak and base costs, the results are still noteworthy.

Austin (Public Operation)

Capital Metro, the recently enacted regional transit authority in Austin, Texas, was chosen because of its fleet size (100 vehicles) prior to expansion. The costing conducted in the course of this study was based upon an August, 1985 income/expense statement provided by Capital Metro.

Inputs of vehicle-miles were obtained by route from Capital Metro's systemwide performance reports for the month of August, 1985. Vehicle-miles for peak and base runs were estimated by allocating deadhead miles to all runs,... giving twice as many deadhead miles to peak runs as base runs. "Block" or "run" summaries later validated these assumptions.

Vehicle-hours were estimated by route, run-by-run, directly from route schedules, and with deadhead miles per run divided by the scheduled speed (provided by Capital Metro scheduling staff. Vehicle speeds are the same by route in both peak and base periods. Of the properties studied, Austin's scheduling is the most straight forward. Interlining, which complicates costing efforts, is generally not used in Austin.

Capital costs were based upon a capital inventory provided by Capital Metro. The transit agency has a relatively old fleet and operating/maintenance facility in comparison to the other public properties studied and, accordingly, the relatively low depreciated value of the capital assets in the cost allocation model makes the Authority difficult to compare with the other public properties studied.

A few acquisition dates and acquisition costs were missing from the inventory provided by Capital Metro, making our capital depreciation efforts dependent to a small degree on judgement and interpretation. Most assets, other than physical facilities and rolling stock, were classified as three-year assets in accordance with IRS depreciation schedules for capital assets.

The specific routes evaluated were:

Peak Route	Base Buses	Peak/Base Buses	Ratio
1/ 4-N. Lamar/Montopolis	10	5	2.00
2/10-Rosewood/S. First	8	4	2.00
15/12-Red River/Manchaca	8	4	2.00
20/16-S. Fifth/Redd	8	4	2.00
7/27/3/17-N. Austin Loop	18	9	2.00
NWX-NorthWest Express	2	0	Peak only
SX-South Express	2	0	Peak only
NX-North Express	2	0	Peak only

Of the public systems studied, Austin was the most cost-efficient on a cost per revenue-hour basis for regular route service. This may be due to several factors:

1) Prior to the recent voter approval of the sales tax funded regional transit authority, the transit system was operated by the City of Austin. Researchers for several years have pointed to the "diseconomies of scale" in the transit industry, particularly with respect to larger, more automonous, regional transit authorities.

2) Prior to its recent expansion, Austin was considered a "small" system with a fleet of 100 buses. Smaller systems, typically, are more cost-efficient per revenue-hour and revenue-mile than larger systems.

3) Austin, prior to the creation of the regional authority, provided few, if any, commuter-only services. The peak-to-base ratio systemwide is relatively low compared to the other systems studied.

4) The fleet in Austin is older than the fleets in the other properties, as are the operating/maintenance facilities, making for lower unit cost inputs to the cost-allocation model for capital depreciation.

Below are listed the routes examined, and their corresponding costs for peak and base deployment of vehicles and labor:

Route	Base Cost	Peak Cost	Peak Cost % of Base
1/ 4-N. Lamar/Montopolis	$35.44	$53.03	150%
2/10-Rosewood/S. First	34.35	41.21	120%
15/12-Red River/Manchaca	35.43	43.23	122%
20/16-S. Fifth/Redd	38.15	48.18	126%
7/27/3/17-N. Austin Loop	32.07	45.81	143%
NWX-NorthWest Express	-----	115.11	-----
SX-South Express	-----	97.23	-----
NX-North Express	-----	109.53	-----

As the capital needs of the authority continue to expand, opportunities exist for innovation in the type and method of service provision. Serious consideration should be given to contracting of any and all services. Transit managers universally agree that the most opportune time to contract for services is when in a growth mode, as Austin is at this time. The flexibility that contracting can give the authority would enable it to better adjust to the uncertainty of expansion by providing more liquidity in the deployment of limited resources. Austin has gained the services of an outstanding private operator, Kerrville Bus Lines, at very attractive rates for commuter park-and-ride service.

Austin (Private Competitive Contract Operation)

Upon enactment of the regional transit authority, Capital Metro quickly moved to satisfy the needs of commuters in their community. The authority solicited bids from private operators to provide commuter service on the following routes:

Route (Kerrville Bus Lines)	Peak Buses	Base Buses	Peak/Base Ratio
LX-Leander Express	6	2	3.00
PX-Pflugerville Express	2	0	Peak only
LBX-Lndr/Blstn Express	2	0	Peak only
IRS-IRS/VA Express	2	0	Peak only

Bids were received from four qualified private operators, ranging from $49.49 to $65.00 per vehicle-hour, to operate the service. The contract was awarded to Kerrville Bus Lines at a rate of $70.85 per revenue-hour.

Based upon the cost modeling conducted for this study, it appears that Capital Metro has good reason to consider the utilization of private operators for the three commuter, park-and-ride routes (NWX, SX, and NX) currently provided in-house (at $115.11, $97.23, and $109.53 per revenue-hour, respectively).

Dallas (Public Operation)

Prior to the enactment of the sales tax which funded the regional transit authority - Dallas Area Rapid Transit, all transit services were provided by the city-operated, Dallas Transit System. Upon creation of DART, DTS was placed under the contractual purview of the Authority, and the City disbanded the DTS Board of Directors.

DTS operates virtually the same services it did when it was the sole public transit agency/provider. Below are listed the eight routes (three local routes with high peak/base ratios, and five park-and-ride routes) which the study evaluated:

Route	Peak Buses	Base Buses	Peak/Base Ratio
DTS			
6-Fair Oaks Express	14	2	7.0
27-Village Express	12	0	Peak only
65-Pleasant Grove	15	2	7.5
83-Prestonwood Express	11	3	3.7
77-North Central P&R	12	0	Peak only
78-Redbird P&R	6	0	Peak only
79-Bishop College P&R	3	0	Peak only
80-Pleasant Grove P&R	3	0	Peak only

Dallas Transit System provided a detailed and complete operating statement for the month of November, 1985. The grouping of line item expenses under the allocation system was straightforward, and the allocated expenses were easily placed into the costing model by resource.

A summary of routes was also provided for weekday services. This summary provided readily usable input information, i.e. vehicle-hours, vehicle-miles, and peak vehicles. Revenue hours were derived directly from schedules, and on this run-by-run basis, the peak and base vehicle deployment was determined. Revenue-hours by run were used to proportionally separate peak and base vehicle miles.

Given weekday miles, total monthly expenses, and "expenses per total mile," we arrived at a systemwide number of vehicle-miles for the month of November. The same method was used for the determination of vehicle-hours per month.

The depreciation of capital was based upon an inventory of assets provided by DTS. IRS property definitions and depreciation schedules, the 12-year standard for the useful life of transit coaches, and professional judgement were factors in the calculation of asset depreciation.

Below are listed the operating and capital cost estimates of peak and base services for eight DTS-operated routes. DTS devotes a significant amount of its resources to the provision of peak services, i.e. park-and-ride and express routes.

Route	Base Cost	Peak Cost	Peak Cost % of Base
DTS			
6-Fair Oaks Express	$62.23	$136.64	
27-Village Express	-----	114.46	----
65-Pleasant Grove	68.93	114.97	167%
83-Prestonwood Express	61.65	93.12	151%
77-North Central P&R	-----	122.8	----
78-Redbird P&R	-----	140.84	----
79-Bishop College P&R	-----	85.06	----
80-Pleasant Grove P&R	-----	76.12	----

Dallas (Private Competitive Contract Operation)

The Dallas Area Rapid Transit Authority (DART) has been a leader in the provision of contracted services. In August 1983, upon creation of the regional authority and the passage of the sales tax for transit, DART quickly began developing its plans to expand services.

The DART Board of Directors elected to first pursue the commuter market, and had decided early on to establish a policy of contracting for services with private companies to the maximum extent feasible. By the spring of 1984, the Board moved to competitively bid the first expansion of services beyond those existing services provided by DTS. They proposed contracting eleven(11) express routes serving commuters to downtown from various suburban locations. The contractor was to provide vehicles, drivers, supervision and maintenance. A two-phase proposal process was used and the contract was awarded to a consortium of three firms, Trailways Corporation, Ryder Truck Systems, and ATE Management and Service Company. The contract was for three years and established an initial $15.5 million level of serice, which was later expanded to $21 million due to increased demand.

Trailways Commuter Transit provided 88 vehicles on 27 routes at an average cost of $78 per revenue-hour for these commuter services. Trailways was able to initiate service within 75 days, much more quickly than would have been feasible, if DART had been required to purchase vehicles and hire drivers itself. In addition, DART maintenance facilities were not available, nor would they have been available in sufficient time to service the additional vehicles.

According to Trailways, contracting saves DART an amount equal to 30% of the estimated cost for DART to provide the services in-house. More appropriately, comparisons should be made between the Trailways and publicly-operated, DTS services. Though direct comparisons are difficult to make, it is still possible to perceive a real savings from the utilization of private operators for the provision of commuter services in Dallas. Below are listed several privately-contracted commuter routes (DART I) with unusually high peak/base ratios:

Route (DART I)	Peak Buses	Base Buses	Peak/Base Ratio
81-Garland	27	2	13.5
200-Plano	15	2	7.5
202-N. Irving/Las Colinas	7	1	7.0
203-South Irving	6	1	6.0
204-Carrollton/Frmrs Brnch	11	2	5.5
Total Contract Routes		27	
Total Contract Buses		88	
Average Cost per Rev-Hour		$78	

Just over a year later, the DART Board of Direcors awarded a second contract through a competitive bidding process to the private sector for the provision of regular route, local and crosstown service (DART II). The recipient was again Trailways Commuter Transit, Inc.

For the DART II contract, the Authority purchased 204 transit-style buses to be used by the private operator in the operation of the service. The five year agreement was scheduled to start-up in two phases,.. the first phase began in September, 1985 with 87 buses operating on 24 routes (DART provided a 10% spare ratio of nine buses). The second phase will start 1986, and will increase the number of routes to 52, and the number of vehicles to 204 (including spares).

Below are listed several privately-contracted routes (DART II) with relatively high peak/base ratios:

Route (DART II-Phase I)	Peak Buses	Base Buses	Peak/Base Ratio
300-Irving Boulevard	8	2	4.0
320-Luna	4	1	4.0
340-North Dallas Loop	7	2	3.5
360-Belt Line/E. Central	4	1	4.0
378-Broadway	5	1	5.0
Total Contract Routes		24	

Average Operating Cost per Rev-Hour $38.43 (5-yr avg)

The mix of public and private resources provide a comprehensive, high-quality, and cost-effective system of transit service provision for the regional authority.

The cost of publicly-provided services in Dallas on comparable routes is significantly higher than private sector provision of services would appear to be. Further cost-allocation work should be conducted by DART/DTS of its peak services to ascertain the full potential for savings through contracting, and the policy implications of such a decision to do so.

Houston (Public Operation)

The Metropolitan Transit Authority of Harris County (METRO) was selected for examination because of its long history of private sector contracting, and because of its well-known commuter park-and-ride services. Below are listed the nine routes (five local and four commuter) selected for examination:

Route	Peak Buses	Base Buses	Peak/Base Ratio
32-Harwin Express	16	3	5.33
31-Memorial Express	14	2	7.00
53-Westheimer Limited	14	4	3.50
21-Northshore Express	7	2	3.50
14-Hiram Clarke Limited	11	6	1.83
210-Katy/West Belt P&R	6	2	3.00
245-Edgebrook P&R	11	2	5.50
202-Kuykendahl P&R	36	7	5.14
201-North Shepherd P&R	9	---	Peak only

METRO provided a great deal of information for use in the cost-allocation modeling process. METRO's data appeared to be the best of all of the systems examined. This may be due to METRO's most recent efforts in the cost-allocation arena, and to the "ripple effects" of lower private contract rates that prompt self-examination.

As mentioned, much of the costing work had previously been done by METRO with its "cost-allocation matrix," a variation of the "three-variable" model recently developed by METRO's Office of Management and Budget, with assistance from McKinsey & Company.

Performance and financial data from the 3rd quarter of 1985 was provided by METRO. The matrix provided the listing of costs by type of service. The assignment of expense to the appropriate resource was completed for both local and park-and-ride services, since both were being modeled.

Several expenses were individually drawn from tallied expense summaries which METRO uses in its matrix model, and were reallocated to resources in a manner consistent for comparison with the other systems studied.

Vehicle-miles, vehicle-hours, revenue-miles and revenue-hours were obtained by route and systemwide for use in the model. "Block summaries" were used to separate peak runs from base runs, and the corresponding vehicle/labor deployment.

The information provided in the block summaries was of such detail that labor efficiency application rates were calculated and assigned by route, a temporal variation method of peak service costing.

Capital depreciation rates were obtained directly from METRO's expense allocation tables. The authority uses a twenty year depreciation period for its capital facilities, while in the study of the other cities a fifteen year period was used. Given time constraints, the magnitude of the capital inventory, and the inherent difficulty of comparing one system to another in all things equal fashion, it was deemed impractical to recalculate the depreciation from METRO's massive capital inventory records.

Houston METRO devotes a great deal of its resources to servicing peak demands, unlike the systems in Austin and Phoenix. Nevertheless, peak service costs per revenue-hour were comparable with those same unit costs in other cities.

Below are listed the operating and capital costs for peak and base levels of service, for the nine routes examined in Houston:

Route	Base Cost	Peak Cost	Peak Cost % of Base
32-Harwin Express	$63.52	$108.79	171%
31-Memorial Express	70.71	106.99	151%
53-Westheimer Limited	57.42	104.26	182%
21-Northshore Express	73.84	120.41	163%
14-Hiram Clarke Limited	54.23	71.87	133%
210-Katy/West Belt P&R	77.43	97.45	126%
245-Edgebrook P&R	77.52	151.57	196%
202-Kuykendahl P&R	97.99	178.81	182%
201-North Shepherd P&R	-----	126.23	Peak only

Houston (Private Competitive Contract Operation)

METRO has been contracting for the provision of its Park-and-Ride commuter bus services for several years. Though METRO's use of private operators has decreased from its highest level of 122 peak buses in 1983 to 75 peak buses in the last quarter of 1985, METRO's exploitation of the intended effects of competitive procurement is improving attitudes about the use of private contractors.

In early 1979, the newly-enacted METRO began implementation of the agency's plan to expand regional transit services. At that time, in-house maintenance performance, facility development, and equipment acquisition programs were such that METRO inaugurated its commuter service program in August of 1979 with the private operation of 20 contract service buses (operated from the northern suburbs to the Houston CBD). At the end of that year, services were expanded to the southwest portions of Houston with a total of 31 contract buses.

During 1980, an additional 35 contract buses were placed into operation, expanding the regional commuter services to the suburban cities of Katy and Clear Lake City. Expansions to other areas brought the number of contract buses to 94 at the end of calender year 1981.

During 1982, consumer demand brought further service expansions and contracts for 112 privately-operated buses. At its zenith in 1983, four private operators were providing 434 trips per day with 122 buses on 12 routes. The average cost per revenue-hour was $82.39 for contract services.

The 12 privately contracted routes were as follows:

Route	Peak Buses	Cost per Rev-Hr
107-FM 1960 Express	8	$88.00
112-FM 149 Express	4	70.80
132-Harwin Express	8	108.70
142-Clear Lake Express	10	83.50
201-N. Shepherd P&R	13	90.22
202-Kuykendahl P&R	20	77.81
203-Champions P&R	8	88.00
205-Kingwood P&R	13	86.06
221-Katy/Mason P&R	4	88.02
228-Addicks P&R	8	59.58
263-Alief P&R	7	105.00
270-Missouri City P&R	7	54.38
Total Contract Routes		12
Total Contract Buses		110
Average Cost per Rev-Hour		$82.39

One METRO staff person was responsible for administering these well-documented, "quality services." Overall, private contractor performance was deemed "impressive and satisfactory" by METRO staffers. During February, 1983, METRO personnel conducted AM/PM checks over a two week period of all contract carrier routes. The evaluation report said, "The percentage of contract carriers operating on-time was 96%. All equipment was clean and in good repair. Contract carrier operators exhibit a well-groomed, courteous, and professional demeanor." There were no accidents per 100,000 total miles for each month of a four-month evaluation period. During the same period, passenger surveys were conducted to rate service quality. Survey responses indicated a "high degree of passenger satisfaction with METRO services provided by contract carriers."

In response to the following questions, responses were received from 760 riders surveyed on February 16, 1983, as follows:

	Excellent/Good
Cleanliness of the Bus	100%
Air Conditioning/Heating	92%
Courtesy of Drivers	100%
Driving ability of the drivers/ How safely and smoothly they operate the vehicle	100%
Routes/How well the service takes you to/near the building you want to go to	95%
Reliability of Service	99%
Frequency of Departure Time	90%

Over the next several years, METRO assumed responsibility for direct operation of many privately-contracted routes and new park-and-ride services. Only six contracted routes remained in the summer of 1985 when METRO began earnest work upon its cost-allocation/performance model. Private operators were servicing the following six routes:

Route	Peak Buses	Cost per Rev-Hr
107-FM 1960 Express	8	$87.24
204-Spring P&R	16	87.40
205-Kingwood P&R	14	82.61
212-Seton Lake	15	65.55
246-Bay Area P&R	13	84.21
270-Missouri City P&R	9	60.47
Total Contract Routes		6
Total Contract Buses		75
Average Cost per Rev-Hour		$78.61

METRO had previously indicated a desire to provide all of its commuter park-and-ride services in-house, based upon a METRO Audit/Office of Management and Budget service cost estimate of internal operation of these services. This cost-estimation failed, however, to consider many costs, which when applied, would cause a dramatic rise in METRO's cost of providing these commuter services.

In 1985, however, METRO began development of a cost-allocation model, which though a "three-variable" model, took a "matrix" approach to the assignment of expenses by resource to service-type, i.e. park-and-ride, local, contract, etc. For example, if preventive maintenance expenses are applicable to local and park-and-ride services, but local vehicle-miles represent 90% of the total miles, then 90% of the preventive maintenance expenses would be allocated to the local service category.

This fully-allocated matrix approach to cost-allocation modeling included operators, wages, fringe benefits, maintenance salaries and wages, parts, fuel, consumables, insurance administrative and supervisory personnel, and depreciated capital costs for buses and bus operating facilities.

At the same time METRO conducted its costing activities, METRO informally solicited estimates of private operator costs to contractually provide the six remaining (contracted) park-and-ride routes. Private contractors responded with estimates that ranged from $68.90 to $99.10 per revenue-hour.

Based upon those estimates and METRO's preliminary results of its cost-allocation modeling, the decision was made to request formal proposals for the six existing, contracted park-and-ride routes. Seven private operators bid for the service. National Transit Services, Inc. (NTS) of Chicago, Illinois was awarded the contract at an average rate of $72.28 per revenue-hour.

Below are listed the six park-and-ride routes which NTS, Inc. currently provides on METRO's behalf:

Route (National Transit Services)	Peak Buses	Cost per Rev-Hr
107-FM 1960 Express	8	$ 72.28
204-Spring P&R	18	72.27
205-Kingwood P&R	15	72.29
212-Seton Lake P&R	15	72.25
246-Bay Area P&R	14	72.27
270-Missouri City P&R	8	72.18
Total Contract Routes		6
Total Contract Buses		78
Average Cost per Rev-Hour		$ 72.28

In its early contracting years, METRO solicited proposals from only local bus companies and tried to spread the work to those four firms. Later, when dissatisfied with the charges and/or service of some private operators, METRO solicited competitive proposals from local operators, and awarded contracts to two private contractors at rates lower than those paid in the previous year.

Three years later, METRO solicited bids from a broader base of private operators including national firms. The contract was awarded to a private operator from Chicago at an average rate lower than any average rate METRO had been charged in the last five years. Thereby, attesting to the cost-saving AND cost-containing effects of competition.

In-house provision of service is obviously costing more than the Authority expected when it assumed operation of the both the North Shepherd and Kuykendahl park-and-ride services. Both routes have maintained higher cost-recovery ratios than most other park-and-ride routes due to high ridership. Real potential exists for the public agency to "skim the deficit" by contracting with private operators at lower costs for these services. If ridership remains constant, and if revenues are in excess of private operator cost estimates (as several public and private transit managers suggest), these contracted routes could truly cross-subsidize other more costly routes with public "profits."

Phoenix (Private Non-Competitive Contract Operation)

Phoenix Transit is a unique character within the realm of the public transit industry. The City of Phoenix has for the last fourteen years contracted for the provision of its city-wide services with American Transit Corporation (ATC), a well-regarded transit management firm based in St. Louis, Missouri.

Many transit properties contract for management and administration, but few transit agencies contract for turn-key provision of all services, excluding capital. Local officials, both public and private, attest to the efficiency of the system.

The process of annual contract negotiation is of significant interest. Each summer for the last fourteen years, the City of Phoenix has received an "offer" from ATC to continue its annual contract at a specified rate of compensation per vehicle-mile. City representatives compare the suggested rate of compensation with the costs experienced by other systems of comparable size/locale to determine the "fairness" of the offer.

Negotitation, based upon the assumption that the other transit systems in the City's performance comparison are providing cost-effective service, is not as ensuring as the competitive procurement of services, however. The City has no reason to suspect it is not getting the best deal it could, because cost-allocation work and competitive service procurement has not been conducted in Phoenix.

The costing conducted in the course of this study was based upon an October, 1985 income/expense statement provided by Phoenix Transit. Statements from the months of September, 1985 and November, 1985 were checked to ensure that expense accruals for the month of October were consistent with other months.

Inputs of vehicle-miles were obtained from October systemwide performance reports, and vehicle-miles for peak and base runs were proportionally estimated by route on the basis of of systemwide vehicle-hours to revenue-hours. Vehicle-miles were adjusted by route using scheduled speeds specific to individual routes, and by the number of peak and base runs.

Inputs of vehicle-hours were derived from "block summaries" or "run summaries" provided by Phoenix Transit. Specific delineations of vehicle-hours and revenue-hours were made by run from the run summaries provided.

Phoenix Transit does a significant amount of "interlining" of its routes. Interlining does not make the cost-allocation task an impossible one, but it does add to the difficulty of accurately allocating cost to the proper runs. Fortunately, the Phoenix Transit block summaries provided very detailed information on a run by run basis.

Capital costs were based upon a capital inventory which was not as complete or refined as the inventories received from the other public transit properties. Some acquisition dates and prices were missing from the inventory provided, making data interpretation more subjective. Most assets, other than "plant" and "rolling stock", were classified as three-year assets in accordance with the IRS depreciation schedules for capital assets.

The specific routes evaluated were, as follows:

Route	Peak Buses	Base Buses	Peak/Base Ratio
5-North Central	20	13	1.54
7-North 7th Street	7	3	2.33
8-North 19th Avenue	9	4	2.25
41-North 27th Avenue	5	3	1.67
60-East Washington	4	2	2.00
27-East Roosevelt	4	2	2.00
90-N. Scottsdale Express	2	---	Peak only
91-N. 31st Avenue Express	5	---	Peak only
93-Superstitution	4	---	Peak only
99-S. Scottsdale Express	2	---	Peak only

Phoenix Transit does not devote as much of its resources to the servicing of peak demands as do the systems in Dallas and Houston. Nevertheless, peak service costs per revenue-hour were comparable with those in other cities. Below are the operating and capital costs for peak and base levels of service, for the ten routes examined in Phoenix:

Route	Base Cost	Peak Cost	Peak Cost % of Base
5-North Central	$43.19	$89.47	207%
7-North 7th Street	43.75	75.06	172%
8-North 19th Avenue	42.29	77.15	182%
41-North 27th Avenue	35.32	55.60	157%
60-East Washington	44.56	62.73	141%
27-East Roosevelt	42.40	55.27	130%
90-N. Scottsdale Express	----	130.27	---
91-N. 31st Avenue Express	----	91.31	---
93-Superstition	----	85.88	---
99-S. Scottsdale Express	----	160.42	---

Phoenix Transit provides some very costly peak service, and would likely be doing themselves a favor by isolating service segments into categories, i.e. regular route base-service, regular route peak-service, and commuter-oriented peak-only service, for further cost-allocation modeling and competitive development of services.

Several options are open to the new regional transit authority in Phoenix, because of the flexibility gained by operating all of its current services under contract. Competitive procurement of transit services, as in the other cities examined, has the potential to save the City even more subsidy than transit managers in Phoenix believe is currently being saved.

Results and Conclusions

A prime motivation for the utilization of private operators in the provision of public transit services has been the need for a public agency to expand its operations quickly to satisfy a political need, i.e. in response to voter-approved taxing authority and regional service expansion.

Public transit agencies that have continued to contract for service do so, however, because they firmly believe that contracting saves their constituents money. And the potential for more savings through the contracting regular-route peak services appears to be great.

Below are listed the percentage range of publicly-provided peak costs/base costs:

Publicly-Operated Services	Peak Cost Base Cost (%)
Austin, Texas (Capital Metro)	120-150% greater
Dallas, Texas (DTS)	151-220% greater
Houston, Texas (METRO)	126-196% greater
Phoenix, Arizona (Phoenix Transit)	130-207% greater

Despite the long-held suspicions of transit managers, it has been difficult to find "costed" peak services in public environments to compare the costs of private service provision in a side-by-side fashion. This is understandable, though, because there have never been "real" incentives for public transit managers to conduct detailed self-examinations of their own costs of providing transit service... or, for those that do, incentives to "broadcast" the results of their labors.

Greater importance and emphasis will be placed on the costing of individual public routes. Accomplishing this will require sound cost-allocation practice, however.

The overcosting of relatively inexpensive base service and the undercosting of expensive peak service encourages misallocation of limited resources. Because cost-allocation modeling is at best an estimate of the "true costs" of providing service, there is considerable opportunity for misuse.

Responding to pressures to contract more expensive services to private operators, and the natural resistance to this pressure reflected by transit managers and labor unions, some transit agencies could adjust their cost-allocation model to "mask" the costs of peak-only, express services. This can be produced by utilizing output variables (i.e. revenue-hours, or revenue-miles) as variables within a cost-allocation model, instead of input variables (i.e. vehicle-hours or vehicle-miles). Beyond being incorrect, this approach will inevitably result in the misallocation of capital and operating resources, because management decisions will be based upon distorted information.

Most research into cost-allocation modeling has focused on developing methods for utilization by the public sector in determining its own cost of providing service, particularly peak hour services. Comparisons made between public and private costs of operating similar services, have, until recently, been given only cursory treatment.

Public transit managers have relied more on price quotations from private operators as the basis for their estimates of private sector costs. Although this approach is understandable in view of the difficulty in obtaining detailed data from private operators (who are reluctant to make such information available for competitive reasons), the lack of a structural basis for cost estimation could lead to misleading and non-transferrable results.

The use of bid quotations for a specific service with particular operating parameters is no substitute for a structural cost model, if the objective is to estimate private sector costs in a variety of service settings under different operating scenarios.

For these reasons, it is imperative that serious attention be given at the national level to the development of "universal" standards for cost-allocation modeling for specific use in the comparison of public and private costs. The interests of UMTA and its taxpaying constituency would be best served by the adoption of a standard cost-allocation model for use in the competitive development of transit services.

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Testimony
on
Reauthorization of the Urban Mass Transportation
Act of 1964
before the
Subcommittee on Housing and Urban Affairs
Banking, Housing and Urban Affairs Committee
United States Senate
by
M. Anthony Burns
Chairman, President and Chief Executive Officer
Ryder System, Inc.
April 15, 1986

My name is M. Anthony Burns. I am chairman, president and chief executive officer of Ryder System, Inc., Miami, Florida.

Ryder System is the parent of a group of companies which provide high-quality highway transportation, aviation and insurance management services. Some of our services are provided to customers world-wide. Highway transportation services are provided to customers in the continental United States, Canada and the United Kingdom, with the large majority of that business in the U.S. Our annual revenue is approximately $3.5 billion.

Our largest subsidiary is Ryder Truck Rental. With 1985 revenue approaching $2 billion, Ryder Truck Rental is the largest truck leasing and rental company in the world and maintains a fleet of approximately 100,000 vehicles, including 3,000 buses which began entering the fleet about three years ago.

We currently provide maintenance services for urban mass transit buses in Texas, California and Kansas. In addition, our school bus operating company serves school districts in Missouri, Kansas and Illinois.

All of our bus operations are supported by the network of nearly 800 company-operated maintenance facilities which Ryder Truck Rental has in place across the nation.

I urge the committee to consider favorably the creation of a block grant program for highway and transit that would require public transit systems accepting federal block grants to set aside specific percentages of services for competitive bidding over 4 years, starting with 5% in 1987 and increasing to 20% in 1990.

Two years ago we entered the public transit arena when Dallas Area Rapid Transit started a commuter bus service to the suburbs. Ryder Truck Rental provides maintenance, Trailways provides vehicles and the necessary drivers, and ATE Management and Service Co. provides operating management.

After a smooth start-up, the initial ridership of 3,500 a day has steadily increased to today's daily 15,000 riders. The operation has been expanded twice in response to the service's popularity among commuters. The Dallas experience has been used by Ralph Stanley, head of the Urban Mass Transportation Administration, as an illustration that private operators can provide better service at lower cost to taxpayers. I will provide you with further information on that in a moment.

We have subsequently begun providing public transit vehicle maintenance in Sacramento and Whittier, California; Johnson County, Kansas; and Corpus Christi, Texas

Privatization offers an unusual opportunity for the private and public sectors to work together in partnership for the benefit of the transit user and the taxpayer. At the very least, privatization is a credible alternative worth exploring by any government agency concerned about providing quality service within a tight budget framework. Estimates we have developed lead to the conclusion that privatization of transit service and maintenance can save taxpayers 20 to 25 percent in typical situations.

In the Dallas commuter situation mentioned a moment a go, we and our partners have demonstrated that public-private partnerships produce benefits for all involved.

If the Dallas commuter service we are providing weren't good, 15,000 people would be getting to work some other way. In all likelihood they would be commuting downtown by automobile, causing further congestion on roadways that are already overburdened.

It has been estimated that privatization saved the transit agency in Dallas about $9 million in the first year. A top Trailways executive familiar with the Dallas project was quoted in The New York Times recently as saying that it typically takes five public transit employees to accomplish the maintenance service provided in Dallas by one Ryder employee.

While the value of one Ryder employee compared to his public sector counterpart is certainly open to debate, there can be no question that a Ryder employee is very productive. He or she has to be. Private sector employers are habituated to the discipline of the marketplace, where competition is the greatest cost-cutting incentive of all time. The marketplace does not tolerate inefficient service providers.

Opportunities exist for mass transit success in smaller communities as well. Whittier, California, operates a system with just five buses, which Ryder Truck Rental maintains. Between July 1985 and March of this year, initial ridership of 8,800 has increased to 12,500, and buses on some trips are full. The Whittier buses run more than 6,000 miles between road calls, twice the national average.

Private contractors have incentives that enables them to react quickly. Let me offer as an example our experience in responding with ATE Management and Service Co., which I mentioned a moment ago, to transit needs in Corpus Christi, Texas. The bid request was received March 5th of this year. The contract was awarded March 24th and service started successfully on April 7th -- just two weeks later.

The reason privatization works so well is because it offers choice, and choice fosters competition, which leads to more cost-effective performance. The public benefits, assuming our elected and appointed officials follow sound bidding, contracting and monitoring procedures, and public transit agencies maintain their policy-making roles by determining the lines to be contracted, schedules, fares and transfer arrangements in accordance with their service and marketing objectives.

Companies such as Ryder, which already have extensive maintenance networks in place, are able to perform vehicle maintenance for public agencies at extremely competitive rates. The additional work helps improve productivity at existing facilities, and public agencies can expect this maintenance to be performed to high commercial standards. Where the alternative would be to purchase land, build facilities and staff them, the savings to taxpayers can be extraordinary.

There are some who argue that private contractors will cut corners to minimize costs, resulting in deterioration of safety and quality of service. This would be a very short-sighted approach for any contractor, even more so for a national company such as Ryder Truck Rental.

We value our reputation for high quality service. As a matter of fact, our entire marketing approach is built upon differentiating our services in the marketplace through high quality. Compromising on quality would be counterproductive and would ill serve our long-term business interests.

Any company desirous of public contracts understands the perils of life in the fishbowl. A high quality company simply cannot afford to allow any of its public contracts to "go sour," because the effect of negative publicity on similar business dealings elsewhere around the nation would be devastating.

We consider public contracting for transit services an activity with high growth potential, and we will go to great lengths to maintain our reputation for quality.

Besides simply being paid for the work, contractors also have hard economic reasons to perform well.

It seems obvious that contractors would desire to have their contracts extended or renewed. Public agencies have ample leverage over contractors, and the quality of contractor performance, insofar as the question of follow-on work is concerned.

Of course, proper maintenance of vehicles is also in the best interest of the contractor, because often the vehicles will be sold after the contract ends. The residual value of these vehicles will be greater if they have been properly maintained, a fact of which every good service provider is well aware.

It would be hoped that in implementation of this measure, local governments understand the importance of creating conditions which would encourage contractors to submit bids offering the greatest public benefit. Contractors need flexibility in the bid specifications to stimulate the process of creative problem solving, and they need a "level playing field" on which public and private bids may be compared fairly. We have found that public agency bids sometimes fail to properly recognize all overhead costs.

Agencies should not lose sight of the fact that imaginative use of resources will produce benefits for all parties concerned -- better service for users, lower cost for the taxpayers, a profit for the provider.

Our observation is that this measure will help officials at the local level who are locked in a dilemma. They aren't getting as much federal help as they used to, and they have difficulty raising local taxes because of millage caps or the realities of local politics. Privatization offers a way in many cases to provide the same or better service without the need for greater revenue.

The privatization movement is well underway among forward-thinking government officials across the nation. Passage of a measure designed to encourage privatization will demonstrate your support for their efforts. It will also stimulate interest among those officials who have yet to consider bringing the benefits of privatization to their communities.

# # #

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April 30, 1986

Honorable Chic Hecht, Chairman
Senate Subcommittee on Housing
and Urban Affairs
535 Dirksen Senate Office Building
Washington, D.C. 20510

Attention: Gerry Wyrsch

Dear Mr. Chairman:

In view of the circumstances which precluded my appearing in person, before your Committee, on April 16, 1986, United Bus Owners of America (UBOA) appreciates being afforded the opportunity to submit written comments on re-authorizations for the Urban Mass Transportation Assistance Act of 1964 (The Act) with particular reference to participation by the private sector.

When The Act became law in 1964, private providers of mass transportation were suffering severe economic hardship. Although it seemed possible that private carriers were suffering a terminal economic affliction, there are reiterated references in The Act, to participation by private providers.

In the face of today's monumental insurance crisis, it seems almost beyond belief that there is available a healthy, indeed a thriving, fleet of privately owned coaches, available for effectuating improvements in the delivery system for mass transportation.

Rightly or wrongly, UBOA believes that the health of the private sector results from enactment of the Bus Regulatory Reform Act of 1982 (Bus Act); that ease of entry into interstate commerce generated vigorous action, both among bus operators and bus manufacturers. The result is that there are now available high quality coaches and capable operators.

The competition released by the Bus Act has generated very definite improvements. UBOA believes the time has come for those improvements to benefit short-haul transportation. UBOA is convinced that the competition which has been so beneficial to the charter bus industry can also benefit urban transit.

Monopolistic urban transit operations are a failure. They have driven away ridership; and have given to transit labor a sense of having a vested interest, a proprietary participation, in urban transit.

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Jean Willoughby, Director of Federal and State Aid for Oakland County, Michigan, put it perfectly, saying: "It isn't a question of public versus private. It's competition versus monopoly. Competition always lowers the cost of everything."

The obvious route to correction is to allow free enterprise to enter the transit marketplace; to have routes put up for bid; and to have the local recipient of Federal funds be a bidder, just as the private operators should be bidders.

Stated differently, the level of service should be determined by those who will administer the program. The cost of service should be determined by competitive bid. The fact that a funded transit provider may have negotiated insupportably high wage rates is an irrelevancy, and should not be considered. The rates should not be perpetuated.

Accordingly, it is requested that in reauthorization of UMTA funding, no impediments be placed in the path of UMTA's program for broadening competitive operations in the transit marketplace.

Sincerely,

Wayne J. Smith

Wayne J. Smith
Executive Director

WJS/cda

STATEMENT OF

KENNETH R. MOORE, VICE PRESIDENT AND DIRECTOR

OF THE BUS DEPARTMENT

UNITED TRANSPORTATION UNION

ON

REAUTHORIZING LEGISLATION FOR FEDERAL

MASS TRANSPORTATION PROGRAMS

BEFORE THE SUBCOMMITTEE ON

BANKING, HOUSING AND URBAN AFFAIRS

U.S. SENATE

APRIL 23, 1986

Mr. Chairman and members of the Committee:

My name is Kenneth R. Moore. I am submitting this statement to the Subcommittee on the proposed mass transportation legislation pending before it on behalf of the United Transportation Union, one of the largest and most senior of the unions in the surface transportation field, both rail and bus. I am a UTU Vice President, serving as the Director of its Bus Transportation Department. In carrying out the responsibilities of this office, I have been involved over the past many years in a wide range of matters in mass transportation, particularly as they affect labor relations and collective bargaining.

We add our voice to those of others before this Subcommittee in urging that decisive action be taken to reauthorize current levels of both capital and operating funding of the existing mass transit program. The Urban Mass Transportation Act was one of the most important pieces of urban legislation as of the period of its enactment. The mass transit industry was then beginning to unravel. It was approaching a state of virtual collapse with static revenues, rising costs and deteriorating equipment. Legislation to provide federal support for the takeover, rehabilitation and operation of these systems by the state and its political subdivisions was broadly recognized as an absolute necessity.

Its importance today is no less than its importance then. No one can seriously question that the program has worked well throughout the past quarter century, keeping pace with the dramatic changes which have taken place in the urban condition. In attempting to assess the contributions of this legislation as a response to the problems of the cities of that period, one need only recall the urban condition at midcentury. It would be difficult to quantify the difference between the improvements this legislation has produced in these terms and the condition of urban life had nothing been done to maintain and rebuild the then declining and perhaps doomed public transportation system.

The history of this legislation and its impact have been broadly reviewed by others appearing before the Subcommittee, and we will not elaborate further upon this aspect of the debate.

Given the background and the record of achievement of this legislation, one wonders initially why the Department of Transportation now proposes to dismantle the Federal/State mass transit system or at least to reverse its policy. The answer is clear enough once the facts are reviewed.

We start with the proposition, already noted, that UMTA has worked exceedingly well. The essential nature of the service which it supports has, if anything, increased in its importance to city dwellers. For this reason, the proposal to dismantle cannot sensibly be based upon a theory of obsolesence. All relevant indicators support continuation of the program at current levels of funding, with perhaps some adjustments which are the subject of some of the counter proposals before the Committee.

The DOT bill then obviously proceeds from considerations unrelated to feasibility, practicality, need or effectiveness. It has been suggested that the broad policy of defederalization may be the basic source for the DOT proposal, which otherwise is so completely at odds with the still intact policies underlying UMTA. Obviously, the aim of defederalization is to ameliorate the problem of budget constraints caused by the enormous deficit which has been built up over the past few years. Surely, however, the budget deficit can be managed by other more rational means now being considered by the Congress; the destruction of a program of such vital and essential importance as mass transit can hardly be justified on this basis. This in effect is throwing the baby out with the bath water.

The Department of Transportation's obsession with the repeal of Section 13(c) of UMTA undoubtedly is another of the basic considerations of its proposal before the Committee. Its concern that Section 13(c) adds to the cost of mass transit apparently fuels its passion to dismantle the federal legislative system. Obviously the privatization feature of the DOT bill is aimed at precisely this point. Privatization in this context has become, in effect, a code word for a movement to eliminate collective bargaining in federally financed mass transit by, among other things introducing nonunion labor through the device of subcontracting. Collateral to the DOT legislative push to promote its nonunionization program is the recent promulgation of its "privatization guidelines" imposing standards of subcontracting upon mass transit agencies as a condition of continuing grants.

UMTA was designed to fill the vacuum created by the failure of private enterprise to maintain mass transit services. The lesson of the 1960s was that urban bus services could not then break even. This condition is even worse today. Despite this, the DOT proposal would have the Congress turn from public enterprise back to private enterprise or perhaps more accurately to semi-private enterprise with government financed guarantees to overcome profit deficiency.

There is scant justification for this kind of proposed public-private marriage in the public transportation sphere, given the proven capacity of publicly owned bus systems to provide responsible public transportation. Beyond this, the lack of profit motive from private operations, does not augur well for the efficiencies of such private service. After all, profit is the essential ingredient to the promotion of productivity. Without this ingredient and this prospect, what purpose is to be served by the reintroduction of the private operator, particularly when the public bus operation has done so well and has made such dramatic improvements in cost effectiveness per passenger mile over the past dozen years?

Apart from charters, there is little or no private enterprise in mass transit today in the sense of investments of risk capital in the hopes of generating a stream of profits. Because of this, unsubsidized private operations in mass transit have all but disappeared, but are now to be revived under the DOT

Bill in the form of subsidized private operations.

Experience with this kind of subsidized operation has not been a happy one. California, New Jersey, Illinois, and North Carolina provide some examples.

Northern New Jersey unsuccessfully struggled for a number of years with a state-wide subsidized operation until finally compelled by considerations of economy, efficiency and common sense to commence broad scale conversion from private to public in 1979. Cost control of subsidized operators was perhaps the most difficult problem with which New Jersey had to deal in the period prior to its take-over of the private systems. Service quality and service coordination at lowest possible cost, provision and maintenance of fleets of state owned buses, and the interchange of transfer and pass programs were among the many problems that continuously plagued New Jersey until the 1979 action to acquire Transit of New Jersey. Even now, management of the assisted carriers in the context of the state owned New Jersey Transit continues to present problems resulting in further take-overs, bankruptcies and discontinuances.

The problems in California, Northern Illinois, and in North Carolina with accountability in cost control as well as problems of waste resemble the situation in New Jersey.

There, of course, is always the prospect of competition between service by the subsidized carriers and the supplemental services by public carriers in overlapping areas. The subsidized contractors obviously seek the best routes and tend to realign these routes with provision of services in terms of ridership, and not in terms of public need.

Competitive bidding among private contractors will serve to worsen a situation that has so little inherent promise in itself. The bidding would encourage the use of nonunion labor working in substandard conditions and wages to the detriment of public safety and welfare.

The recurring claim that Section 13(c) impairs the ability of the transit agencies to deal effectively with problems of productivity and innovation has been examined from time to time by relevant government agencies and has been found to be without foundation. Negotiated wages, benefits, and conditions of employment fall within historical patterns and are consistent with long established industrial practices. In fact, wages over the past few years have failed to keep pace with inflation.

In conclusion, we should again like to emphasize that, in our view, it is essential that both capital and operating funding be maintained at current levels and that UMTA's time tested balance between publicly operated and privately operated systems of mass transit be continued without the regressive changes proposed by DOT. DOT's predilection for the abstract notion of defederalization should not be allowed to obscure the issue presented by the bills before the Committee. DOT has consistently failed to make its case on its 13(c) point. We urge that its obsession with the elimination of Section 13(c) should not be permitted to undermine national labor policy as it has historically applied to UMTA.

Thank you for consideration of our views.